North American Utilities & IPPs

2Q20 Regulated Utility Preview: The Covid Compendium Condensing What We Know

Price Objective Change

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Equity
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'20 looks intact for most across Regulated space

We provide our 2Q20 Regulated utility preview for AEE, AEP, AWK, CMS, DTE, DUK, EIX, LNT, WTRG, EVRG, FE, PNW, PPL, WEC, and XEL. The group trod water during Q2 with the IXU index returning +1.8% from Mar 31 through June 30, a tough comp against the broader market with the S&P 500 rallying +20% in the same period. Nonetheless, we see a more constructive story across the board than one quarter ago with weather largely serving as a cushion on Q2 results, offsetting expected losses linked to COVID. If Anything those with pitfalls into 2Q are largely of their own discrete nature, rather than wider (unknown) Covid concerns – along with a handful who didn't update earlier.

Q2 shaping up (much) better than initially feared

For **EIX** we see a miss on 2Q, although comparability continues to remain outside of reach given pending O&M recovery; instead, expect focus to remain on the upcoming fire season and mitigation efforts (PSPS, Blackhawks, fire retardants) as well as updates on '17/18 liabilities (where we remain biased to the upside on the $4.9bn low-end range) although could see further clarity on B/S help w/ re-rating potential. For **DUK**, we see a weak 2Q given more material COVID impacts with O&M offsets back half weighted; we remain concerned around mgmt.'s messaging *of re-base its growth trajectory* given an expected weak '21 outlook following cancelation of ACP and capex backfilled in the later part of the program; longer-term the IRP presents a clear opportunity for further capex deployment (post-21 given litigated process) as well as legislation stemming from the NC clean energy agenda. With large resi compositions and constructive recovery mechanisms/orders across most jurisdictions, we see **AWK** and **WTRG** as relatively protected from COVID challenges. After electing not to reset expectations with 1Q results, *we see more risk to **PPL**'s 2020 guidance* – albeit our latest model still suggests the low end of their range: full quarter impact and ongoing expectations around UK in particular will prove critical given two year lag with true up mechanism. **LNT** continues to move ahead with its WI solar filing with an expected order in '21, while the rate stabilization filing in the state should be decided in Q3 with unchanged ROE and equity and escrow treatment for pension and bad debt. **DTE** appears to have largely offset Covid impacts (among the higher Industrial sales declines posted in Apr) thanks to a strong weather uplift in the quarter (across MIS); we also see approval for rate case filing delay until Q2 202; among best for 2Q outlook. We expect similar benefits for CMS with further details and confidence in cost savings to support a firmer reaffirmation of FY20 guidance. **EVRG** received approval of its accounting order in KS (historically its more difficult jurisdiction) and has a pending request in MO; we see a largely in-line quarter though the focus remains on the outcome of its strategic process with committee recommendation in late July and Board decision in August. **PNW** has a tricky regulatory setup in 2H with rate case staff testimony due in early August, though mgmt. recently affirmed that they do not see a path to settlement in '20, with likely decision coming from a new bench of commissioners after Nov elections; we do expect capex clarity as unexpected angle into 2Q to drive partial offset to outlook; pos '20 affirmation too. We expect **WEC** to post a Q2 print at the top of its already-increased guide range on the back of warm June weather, and see their '20 guidance as very much intact (we raise ests to high range); here too pos framing ahead.

Refer to important disclosures on page 86 to 88. Analyst Certification on page 84. Price Objective Basis/Risk on page 80. **12166391**

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2Q Summary and PO Changes

We include a brief summary of our 2Q estimates compared vs Street as well as PO changes reflected in this report.

Table 1: PO Changes

Regulated		New PO	Old PO
Alliant Energy Corp	LNT	$54.50	$52.00
Ameren Corp.	AEE	$79.00	$79.00
American Electric Power, Inc	AEP	$88.00	$80.00
American Water	AWK	$135.00	$133.00
DTE Energy Co.	DTE	$115.00	$115.00
Duke Energy	DUK	$87.00	$84.00
Edison International	EIX	$65.00	$65.00
Essential Utilities	WTRG	$47.00	$47.00
Evergy, Inc	EVRG	$68.00	$63.00
FirstEnergy Corp.	FE	$45.50	$45.50
Pinnacle West Capital Co.	PNW	$78.00	$78.00
PPL Corporation	PPL	$27.00	$27.00
WEC Energy Group Inc.	WEC	$83.00	$83.00
Xcel Energy Inc.	XEL	$62.50	$62.50

Source: BofA Global Research

Table 2: 2Q Estimate Summary

Regulated		2Q20 - BofAe	2Q20 - Cons	Delta
Alliant Energy Corp	LNT	$0.51	$0.44	16%
Ameren Corp.	AEE	$0.86	$0.86	0%
American Electric Power, Inc	AEP	$1.07	$1.02	5%
American Water	AWK	$0.97	$0.96	1%
DTE Energy Co.	DTE	$1.27	$1.19	7%
Duke Energy	DUK	$1.01	$1.01	0%
Edison International	EIX	$0.95	$1.15	-17%
Essential Utilities	WTRG	$0.24	$0.22	4%
Evergy, Inc	EVRG	$0.70	$0.68	3%
FirstEnergy Corp.	FE	$0.54	$0.55	-2%
Pinnacle West Capital Co.	PNW	$1.55	$1.43	8%
PPL Corporation	PPL	$0.54	$0.56	-4%
WEC Energy Group Inc.	WEC	$0.69	$0.67	3%
Xcel Energy Inc.	XEL	$0.43	$0.49	-12%

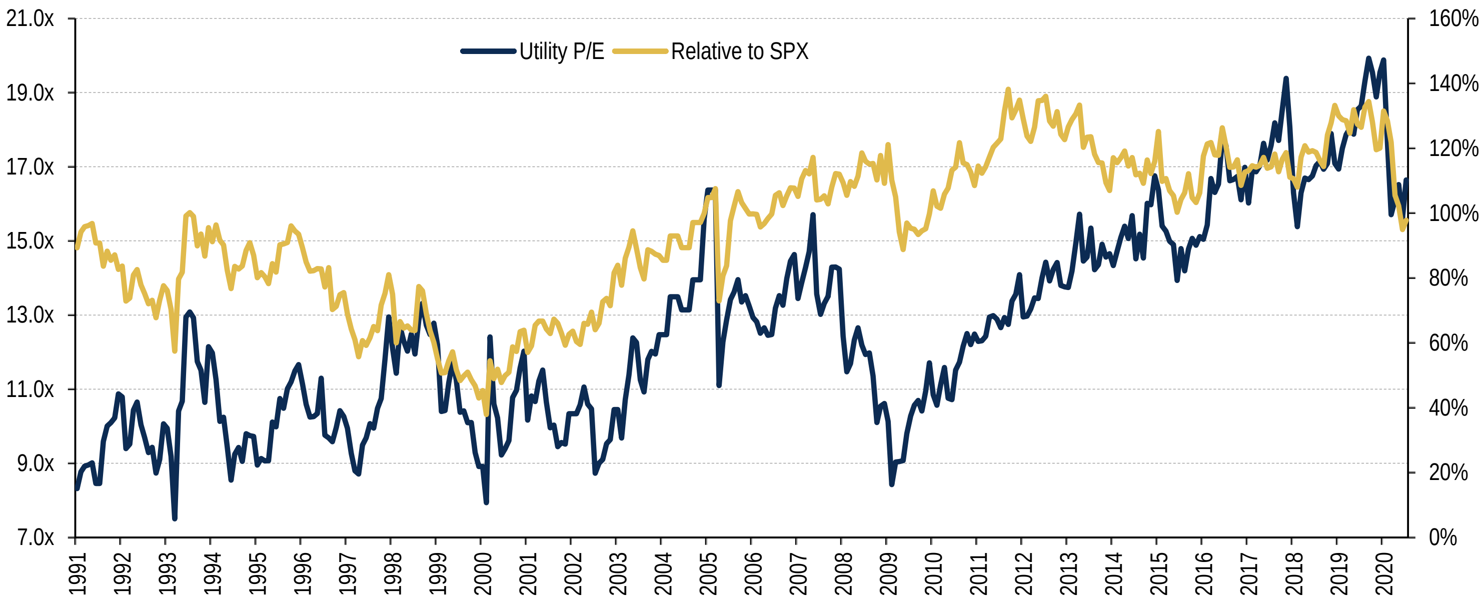
Source: BofA Global Research, Bloomberg

Macro Backdrop

We perceive investors are generally skeptical of current sector valuations – and see the continued upward trajectory of the sector as still showing an expensive backdrop from a high level perspective. The chart below shows the latest mark-to-market of the group on an absolute basis and against the SPX; utilities continue to trade near their all-time highs on both a relative and absolute basis.

We continue to see the backdrop as among the single most intriguing backdrops in recent memory with the sector having traded off relative to its historic relationship between rates and the S&P to its lowest levels since the 2000 tech bubble – off its highest relative trading levels in 3Q19 (almost -60% under-performance), making the sector incredibly compelling against historic valuation metrics. With few material risks to estimates, dividends, or outlook, the question is just whether the market will remain oriented towards growth equities with elevations. Much of this is dependent on recovery from recession ironically – where recovery has historically driven a bid towards value relative to growth (per our Equity strategist Savita Subramanian).

Chart 1: Utility PE relative to SPX

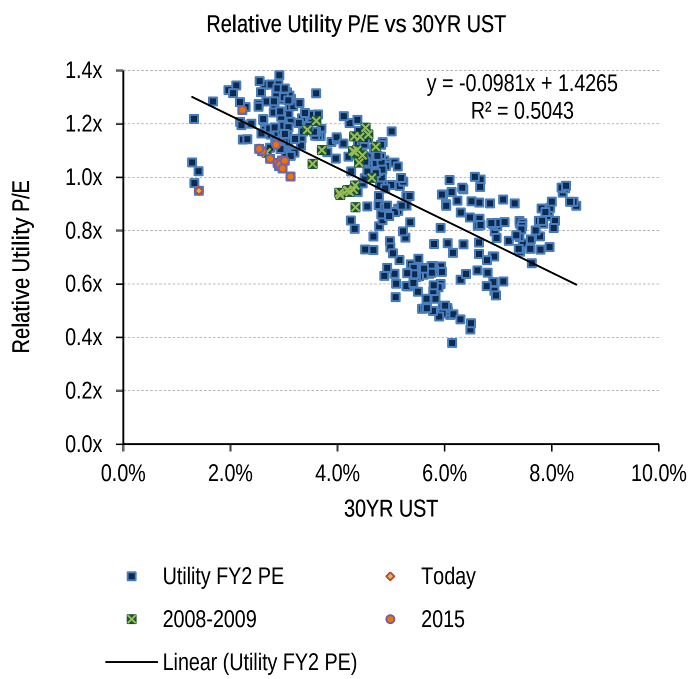


Source: Bloomberg

When adjusting for the S&P itself *and* the treasury environment: different story

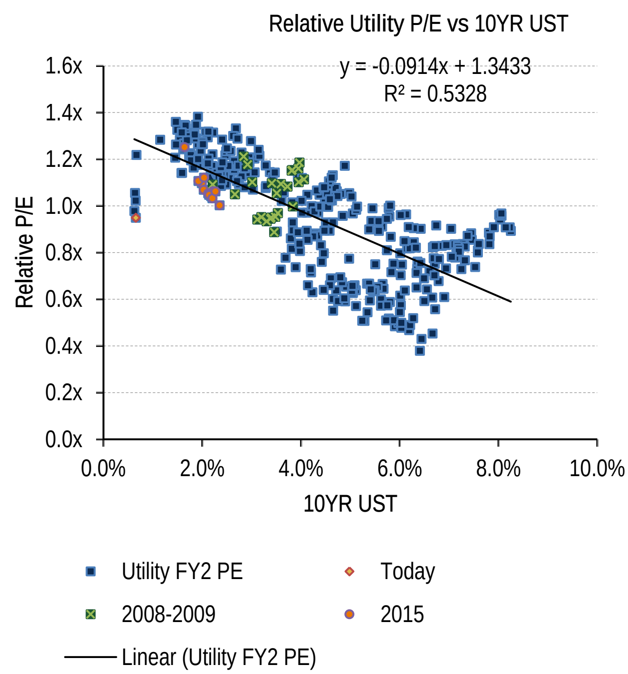
In the exhibits below, we show a time series of where the sector has traded relative to the linear regression on a relative and absolute basis for Treasuries to illustrate the premium; the group has started to trade more in line with its historical linear relationship with 10Yr and 30 Yr Treasuries on a relative basis.

Chart 2: Relative Utility PE vs 30YR UST



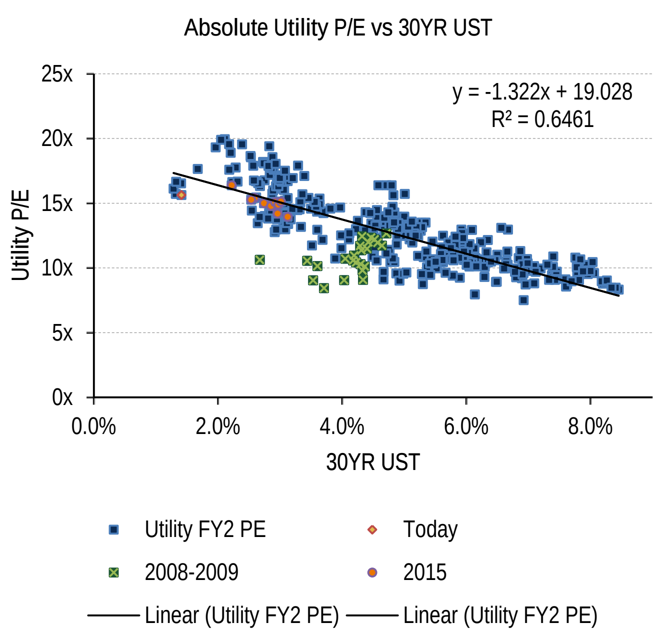
Source: BofA Global Research, Bloomberg

Chart 3: Relative Utility PE vs 10YR UST



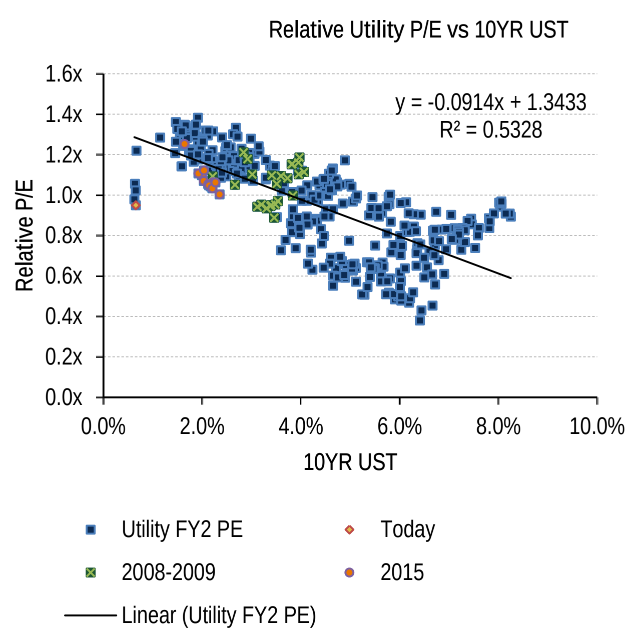
Source: BofA Global Research, Bloomberg

Chart 4: Absolute Utility PE vs 30YR UST



Source: BofA Global Research, Bloomberg

Chart 5: Absolute Utility PE vs 10YR UST



Source: BofA Global Research, Bloomberg

Tax Reform Perspectives For Utilities In Brief

Tax Reform & Utilities: Not as Concerned as Investors

We recently hosted a call with our BofA Public Policy expert regarding potential tax reform with Biden as President. Critically, our expert asserts only if there is a Democratic sweep in November (Biden wins, and Democrats regain control of both the House and Senate) would it be likely for Democrats move to pass a meaningful tax bill in 2021. Many utility investors have been concerned about tax reform prospects and focusing on this scenario as if this was directly tied to a Biden win of late- rather than appreciating the very more narrow under which comprehensive tax reform would once again pass. Note the budget reconciliation vehicle, allows Congress to move tax legislation with only a bare majority in the Senate (cannot be filibustered); this remains a critical vehicle seeing it being used for the last tax reform effort. Notably, Biden's platform currently has three major likely tax proposals, which include: 1) raising the U.S. corporate tax rate from 21% to 28%, 2) implementing a new minimum tax on companies' GAAP earnings, and 3) tightening of the Global Intangible Low Tax Income (GILTI). The first two matter to utilities, while the third really would only apply to AES among utilities/IPPs. Think tanks and private revenue estimators believe raising the tax rate (the most likely of the three proposals) would lead to government revenue of $1.3 trillion over ten years, the highest potential revenue source of the three proposals. The exact rate increase is still subject to change, but 28% is the current proposal. We address many of the tax reform debates in latest election note. The minimum tax on GAAP earnings specifically impacts U.S. corporations that currently do not pay taxes of at least 15% of their GAAP earnings. The proposal would bring the tax level up to 15% for the companies that currently "habitually pay less" than this rate; this could very well still allow for renewable tax credits to be netted even against this minimum requirement (hence giving reprieve to much of the utility industry, albeit this remains unclear). A tightening of GILTI impacts multinational corporations where a company's rate would be increased from 10.5% (current as of 2017) to 21%, effectively doubled. It remains unclear just how this would manifest itself for AES (B-1-7; $14.44). Overall, we see utilities as net beneficiaries under a tax reform context given the muted impact vs other industries despite what is likely delayed ability to recoup the higher tax rates from customers given the need to file rate cases (and likely suffer ROE drops too).

But the real low prob kicker is dividend tax rate hike risk

Separately on the income tax front, but critical for utility investors, Biden has also proposed to tax capital gains and dividends at the same rate as ordinary income, which would go back up to 39.6% in the top income bracket (above $1mn/year). However, we acknowledge that this would be a relatively dramatic proposal, and it is unclear if moderate democrats would support this or even move in the context of a Democratic sweep according to our internal expert. Bottom line, although it is unlikely there is desire to move legislation on capital gains and dividends, and a democratic sweep presents notable vulnerability for utilities under this proposal in addition to the three aforementioned major tax proposals.

King Coal: How Much Exposure is Left?

Measuring the value of remaining coal across the sector

We present our analysis of estimated rate base, earnings, and in turn, value of coal as a % of market cap across our Wider Power & Utilities universe. While disclosures vary with most companies under our coverage (explicitly) disclosing coal rate base many provide some very helpful clues enabling us to estimate ratebase (particularly of more recently built) scrubbers, leveraging FERC Form 1 data and estimates around deferred tax and related adjustments. We also highlight the impact on rate base of scrubber and other pollution control retrofits that have left many utilities with the challenge of dealing with undepreciated plant in what are increasingly uncompetitive generation assets - though some states such as MI have addressed the challenge head on with existing securitization laws, we see opportunities for acceleration of retirements in other jurisdictions such as WI, KS, MO among others where securitization is yet on the books.

Leaders and laggards among our coverage

Our analysis shows that on average Regulated and SMID-cap names have earnings exposure linked to coal in rate base of 10-15% while Diversified peers are meaningfully lower with the exception of SO, although w/ constructive regulatory relationships. EVRG stands out w/ 2019 EPS estimated at 39% derived from its coal-heavy fleet given an estimated ~$5B of coal in rate base. We continue to see this as a key angle to watch in the ongoing strategic process given a largely undepreciated amount w/an estimated $1-$1.5B in rate base linked to scrubber retrofits (highlights need for securitization in both the KS and MO). Elsewhere, we continue to see ETR's unscrubbed fleet as representing a significant renewable investment opportunity with minimal rate base remaining - though the overall share of coal-fired generation in the company's portfolio remains 9% by nameplate capacity. CNP screens as the single highest exposure to coal by % of its portfolio at 83% of nameplate, but the small size of its overall fleet and minimal ratebase associated with its assets (including scrubbers on all assets) mitigate its overall exposure. Meanwhile we expect DTE's relatively high exposure estimated at 19% of EPS to decline in coming years with scheduled 2022 retirements of three facilities - while we estimate some undepreciated rate base associated with the assets, the regulatory environment is broadly supportive of transitioning away from coal with securitization legislation in place in the state since 2000. NEE is unsurprisingly a leader in terms of minimizing exposure among utilities, with less than 1% of rate base tied to coal on our estimates. PNW provides particularly limited (no) disclosure on the composition of its coal rate base (we estimate modest exposure), although is seeking to meaningfully add to its coal rate base. DUK too stands out given ~13% of EPS made up of coal where it also intends to add through coal ash clean-up on one hand, although is looking to make strides through the IRP w/ coal retirements and potential for securitization/accelerated D&A in legislation/rate cases: only DUK, SO, and PNW are still really adding to coal (ash) ratebase. While AES' earnings are ~35% coal and our SOTP indicates ~30% value (among highest for entire sector) are from coal, co is rapidly selling & de-carbonizing (anticipate closer to ~20% end of year): more here. With ESG investors focused on this question of exposure typically from a revenue perspective we thought it appropriate to reposition the debate on a more relevant set of metrics. Please refer the link for full details here.

ESG in the Utility Sector: The Inaugural Diversity Handbook

Diversity & inclusion across the utilities

We provide an inaugural deep dive on diversity and inclusion efforts across our coverage universe. We perceive the issue of diversity in its various forms as increasingly relevant to the investor community, with a growing body of evidence linking financial performance to an inclusive and equitable business environment. We highlight our BofA ESG Research Team's recent report, Womentum! Our report on company initiatives and efforts covers nearly 60 companies across the Diversified, Regulated, SMID Utilities, Gas Utility, Water Utility, Power, LNG, and Residential Solar sectors.

Selecting our diversity metrics

We compiled data and information to assess D&I practices using a range of relevant diversity metrics. In particular, our analysis is focused on: 1) board representation of women & minorities, 2) senior leadership representation of women & minorities, 3) supplier diversity programs and % diverse spend, 4) availability of Employee Resource Groups, and 5) LGBTQ equality policies and practices. Based on public data regarding gender equality, we note a major push across the sector in recent years: on average, women now comprise ~30% of Board members and ~25% of executive leadership roles. Racial/ethnic minority representation is slightly lower with ~20% BoD and 15-20% executive leadership representation in companies in our coverage universe; these averaged statistics also fall slightly below company-reported workforce percentages. Further, fewer disclosures were provided on POC representation than on gender, suggesting that these figures may be even lower. We also provide LGBTQ equality ratings as assessed by the Human Rights Campaign's Corporate Equality Index. While the majority of companies with CEI ratings received full scores (100), a handful of companies scored below, a couple did not respond to repeated requests, and a few of the smaller-cap names were not included given their size. On supplier diversity, nearly all companies stated that they had supplier diversity programs but many did not disclose % spend; on the high end; we note that some companies had up to 30-40% diverse spend. Finally, we include company summaries with more qualitative information (e.g. ERGs, other initiatives).

How did the companies stack up? Stocks in focus…

After examining the quantitative/qualitative metrics, we highlight the companies which stood out within each subsector. SRE has 38% female and 31% POC Board representation, has signed on to the "Paradigm for Parity" for full gender parity in senior executive roles by 2030, and maintains ~40% diverse spend at SoCalGas and SDG&E. ETR has 40% female representation on its BoD, with 30% female executives and 20% POC executives. For 2020, ETR has a diverse spend target of 14% of managed spend. EIX has 36%/36% representation on the BoD by women and POC, respectively, with 35%/34% women and POC in executive roles. Edison is part of the Paradigm for Parity effort. Diverse spend comprises ~40% of total spend. PCG has 34% and 35% female and POC executives, respectively. Total diverse supplier spend represents ~41% of total purchases. CMS has 45% female representation and 27% POC representation on its Board. Women and POC comprise 32% and 18% of executive roles, respectively. Please refer the link for full details here.

Contrasting US Utility Performance Against Global Peers

A Sector Trip Around the Globe

Our macro series continues, with our latest analysis providing some color around BofA utility performance vs regional markets relative to the US Outlook. We include perspectives from our colleague's from Asia, Australia, Europe, and LatAm in an attempt to contrast against the latest backdrop for US utilities. Across the world, we have seen wide dispersions in performance by geography, subsector, and company - with our included tables highlighting performance on a one week, one month, three month, and YTD basis and reflecting averages by subsector across the durations (on a market-cap weighted basis). Most geographies show *relative performance similar or even out-performing their regional markets (admittedly what would be expected in a global defensive pivot*). See each relative performance trends below by region.

So how Does this Stack up with the US?

In our full note, we include the latest stock performance for our core US utility coverage (Diversified, Regulated, SMIDs, Gas, and Water) along with the latest charts showing utility valuations vs. risk free rates & bond yields - with discrepancies recently reached having not been seen in the last several decades. We view US Utilities as substantially intact despite earlier fears of widespread Covid impacts. While admittedly revisions could still prove slightly downwards (2-3%) on '21 given delayed rate recovery & under-earning vs. authorized returns, we see this as much more intact than peer S&P sectors. While a potential 'twin' headwind remains around corporate tax reform into '21, this admittedly is a factor for all utilities. On a market cap weighted basis, Diversified Utilities and Large CapRegulated Utilities remain down low double digits YTD, while SMIDs and Gas utilities are off a more material 25% and 14%, respectively. Water utilities are down a more modest 1% for the year. More specifically, with the utility sector primed for the return of the value cycle, we see SMIDs particularly well positioned to recover from the underperformance this year. With the economy reopening in many states across the nation, we could see a reversal of the 2Q liquidity environment that has favored growth stocks, with value stocks starting to outperform with the latest improving data trends amid re-openings and estimate revisions. With the BofA strategy team calling for value stocks to outperform at least for the next quarter, we believe this bodes well for the sector going forward. Into the next several months. We continue to see the most opportunity in **ETR** and **AEE** among larger-cap regulated names. We also highlight **AES** with its global footprint; down -33% YTD, we perceive this as outsized relative to any relevant geography for the company globally (with even Latam Utilities only down on average -8%). The wider under-performance of the US utilities as part of a near record downtick in 'Value' allocations (see macro note on this trend in US) is also highlighted by the near record relative dispersions *among* utilities, seeing near all-time highs in P/E spreads between 'quality' (those have a record of stable & consistent EPS growth) and 'value' (those with historically lower & less consistent EPS growth alongside higher leverage).

Please refer the link for full details here.

Why are US Utes so Cheap? Let's Look at the Balance Sheet- and P/BV

Tackling the Price/Book Value Debate for Utilities

With the evolving backdrop and strong market comeback more recently, we continue to analyze the US utilities sector against the latest macro data and trends. We continue to see utilities trading at a wide valuation gap on a relative basis to historical relationships to risk free rates and bond yields - with discrepancies recently reached having not been seen in the last several decades. Our latest analysis dives deeper by looking at Price/Book Values across our coverage at both a sector (vs. SPX and other S&P sectors) and company specific level vs. historical norms. Broadly speaking, the group is trading at a ~1.2x discount on this metric, slightly above the -1.0x discount to the S&P over the last decade while the majority of sectors (ex. Financials, Materials, and Energy) are all elevated from an absolute level vs historic norms but off their peaks. While admittedly P/BV value trends don't show the sector trading as cheap as comparisons vs yields (both risk-free and corporate IG bond yield relationships) would otherwise indicate, it admittedly is still wider than historical norms by -20%, this metric controversially shows the sector trading at one of its most elevated levels in recent years in absolute terms (see full tables below). Critically, his has been one of the arguments from bears or those otherwise Neutral on Utility sector valuation, suggesting it just doesn't 'screen' well for a hard asset sector. Admittedly, most sectors are already trading at near record historical levels on a P/BV basis (likely with tech & other growth sectors reflecting an increasing premium for intangible assets). Looking at the spread between the wider S&P and Utilities, the discount on a P/BV basis today is at its widest (eg-utility discount) since the GFC. Altogether, while not quite as bullish a characterization we still see even this valuation metric as meriting an investment case in utilities. Meanwhile looking at sector balance sheet more holistically, metrics have seen a steady uptick in leverage in recent years (both net Debt/EBITDA and FFO/debt) reflecting wider de-risking (fewer non-reg subs, etc) and acceptance of greater leverage by rating agencies

EV to Ratebase yields similar outcomes

In our latest analysis, we also highlight EV/Rate base as a further proxy of P/BV valuation: notable companies on EV/Ratebase metric include DUK, FE, ES, WEC, LNT among others with larger non-regulated/tax items.

So What are Our Top Picks these Days?

We see the utility sector as primed for the return of the value cycle, with SMIDs particularly well positioned to recover from the underperformance this year. With the economy reopening in many states across the nation, we could see a reversal of the 2Q liquidity environment that has favored growth stocks, with value stocks starting to outperform with the latest improving data trends amid re-openings and estimate revisions. With the BofA strategy team calling for value stocks to outperform at least for the next quarter, we believe this bodes well for the sector going forward. Into the next several months. Our favorite opportunities remain ETR and AEE among larger-cap regulated opportunities.

Please refer the link for full details here.

The ABC's of Utilities: ROE, leverage, debt capital, and capex tell the story

Evaluating GAAP ROEs and ratio trends

Below we compile a series of ratios to show aggregate trends for sector wide returns and balance sheet metrics. We find this a useful compilation for investors to gauge wider sector trends on largely sustained balance sheet metrics and consistent ROEs across the space in spite of sector gyrations from year to year & provides a baseline for comparison across each of the sub-sectors against 'normal'. We include full tables of both projected and historical earned ROEs and balance sheet metrics below for review. Credit metrics are intact, despite continued acceleration in capex in recent years. We anticipate 2020 could prove a pause on this accelerating trend.

Risks to sector linger as Corp Tax & Covid Combined

We increasingly see some risks of compounding rate case delays given consumer impacts of Covid (& low rates at that) exacerbated by the prospects of higher corporate taxes through a change in administration: this could drive more meaningful rate lag. This could specifically impact '22 and '23 ests as years of rate stay outs eventually take their toll on earned ROEs despite cost cutting efforts. While earlier (lower) corporate taxes were readily passed through to consumers, the reverse could be reflected potentially in a delayed fashion through new rate cases (unclear if trued up) and would present potentially unpalatable rate increases despite covid sensitivities. This could also serve to reduce authorized equity ratios.

Subsector breakdown: Regulated have higher GAAP ROEs

We find that Diversifieds, SMIDS, and gas utes have roughly an average of 9% GAAP ROEs, while Water and Regulateds are higher at 10%, and 11%, respectively. Canadian utes are at 7% - reflecting non-regulated segments and commodity risk. In '20 we see 40-100bps YoY decreases in all subsectors but gas (flat) & Canadian names (increasing).

Could we see more capex shifts?

In response to balance sheet pressures, a number of co's reduced capex in '20, shifted capex from '20 into later years, or reduced capex overall in the next few years; we adjusted capex in our models for co's including CNP, EXC, AEP, CMS, EIX, POR, NI, EMA and AQN. Not all companies reduced '20 capex; some have upside potential including co's positioned to benefit from replacing generation with ratebase opps (AEE, ETR) working with states in what we see as stimulus (i.e. accelerate or increase capex to create jobs) (XEL, PEG), and pursing renewables opps that benefit from the PTC continuity safe harbor guideline expansion (NEE, AQN). Across our coverage, we find a net $419mn capex reduction in '20 and a $1.5bn capex reduction for '20-25 - a mere -0.3% reduction in total spending but indicative of co-level differences. Looking forward this year, we believe there remains risk of negative capex revisions still for the sector, given potential further balance sheet pressure going into 2Q (what many expect is the hardest quarter on sales) and apparent delays in rate case timing (as companies are rightfully sensitive of the economic backdrop to not file too soon). We see this risk as largely overlooked.

Please refer the link for full details here.

Alliant Energy (LNT)

We forecast 2Q20 adjusted EPS of $0.53 vs. consensus of $0.40 (we note upside to Street estimates as these are not updated yet) and 2Q19 results of $0.40. We reflect a 2020 EPS estimate of $2.44/sh, above the midpoint of mgmt.'s $2.34-2.48/sh guidance range as LNT continues to respond to Covid-related sales impacts, though we note that Q2 provided an estimated weather-related uplift, in contrast with Q1. We expect an update on LNT's WI rate stabilization filing which is currently making its way through the PSC process with staff recommendations forthcoming. With this approval expected sometime in Q3 and the recent solar filing, we see the LNT story as increasingly de-risked and set up for continued execution into '21with our forecast EPS CAGR at 6-7% off 2019 vs. mgmt. range of 5-7% .

Key Drivers: Weather is expected to be a benefit of $0.05/sh as we normalize for the negative effects of 2Q19 (2 cents) and account for milder weather in 2Q20 that drove the number of CDDs across LNT's service area higher than normal – in particular in the month of June which sees a heavier weighting toward its degree days. We estimate a Covid-related impact (sales and O&M offsets) of approximately -3 cents for the quarter as LNT reported residential sales up 4% with C&I down 12% for the first 2 months of Q2. We also note a tax timing item which we estimate at+4 cents in Q2 related principally to PTCs, which along with the 8 cent gain reported by LNT in Q1 is expected to reverse during the balance of the year.

Unknowns: Weather is expected to be a benefit to LNT – we estimate a 3 cent uplift – thought given the shoulder quarter he exact impact is difficult to ascertain. We note the relative weighting of degree days varies from Apr-Jun, though with Q2 CDDs weighted toward June for LNT, this trend should provide a tail wind. Additionally, we note that while most states have lifted strict stay-at-home orders, higher-margin residential sales may have benefitted as more people remained indoors than during a 'normal' year. While the tax timing impact related mostly to PTCs is expected to be flat for the year, it is difficult to estimate the precise impact though we expect it to be directionally lower in Q2 relative to 8 cents in Q1.

Table 3: LNT Q2 EPS walk: a nice beat off lowered expectations from 1Q

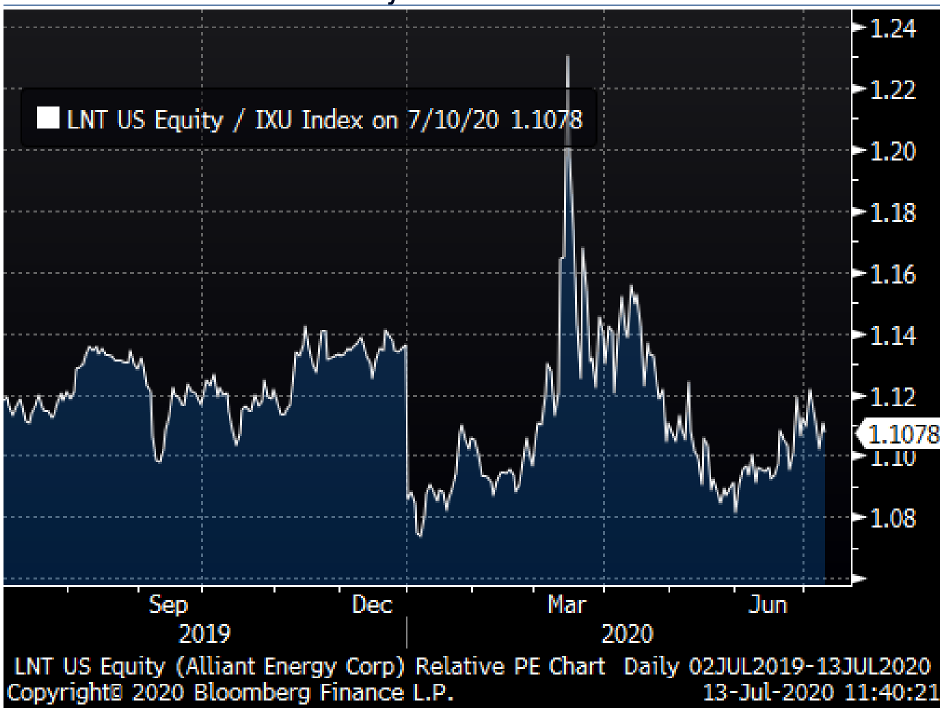
2Q20 EPS Walk	Notes	EPS Impact
2Q19 Starting Point		$0.40
Weather impact 2Q19		$0.02
Weather impact 2Q20	*June CDDs higher than normal*	$0.03
IPL Base rate increase	*IPL Electric effective 1/8/20; IPL Gas effective 12/18/19*	$0.09
WPL Electric	*New rates at WPL*	$0.05
Depreciation	*-$0.18/sh for full year; weighted more heavily later in yr*	($0.03)
AFUDC increases	*-$0.13/sh for full year*	($0.02)
Other items / O&M / ATC	*-$0.08/sh for full year*	($0.02)
Int Expense	*Debt issuance at WPL and IPL*	($0.01)
COVID	*Stay at home mid-March*	($0.03)
Tax timing	*Related mostly to PTCs – flat for the year*	$0.04
Dilution	*Incremental equity dilution*	($0.02)
2Q20 EPS		$0.51
Consensus		$0.40
2020 EPS		$2.44
2020 Consensus EPS		$2.40
2020 Guidance		2.34-2.48
2Q19 Sharecount		238
2Q20 Sharecount		250

Source: BofA Global Research, Quick, Bloomberg

Stock trading dynamics

Shares of LNT have traded up in recent weeks relative to the electric utility peer group, exceeding the relative trading levels of pre-Covid Q1. We note several constructive developments of late including the filing of the company's first tranche of its intended 1 GW solar projects in WI – the company's request for 675 MW continues to move through the permitting process in the state where we note appetite for renewables is strong with ample precedent for including utility-scale projects in rate base, as MGEE has done. Mgmt. has also recently affirmed that it is not seeking to expand its non-reg business aside from a small wind footprint and transport business. We see LNT as offering above-peer EPS growth in its regulated biz of 6-7%, among the more constructive Midwest utility stories among our coverage.

Exhibit 1: LNT shares relative to IXU on 2yr forward PE



Source: Bloomberg

Covid impact: Q2 trending in the right direction

We note the most recent Covid sales update from mgmt. indicates an uptick in C&I sales in the month of May. While weather-normalized Residential sales held steady at +4% for the Apr-May period (in-line with prior Apr reporting), C&I ticked up to -12% from -13% previously reported in April, indicative of a modest though encouraging uptick. We note this trend largely supports MISO data which shows electricity demand bottoming in Apr and then beginning a gradual and somewhat uneven recovery. We note that LNT's service territory highlights the different state-level approaches to handling the pandemic, with IA having never issued a statewide shelter-in-place order (leaving this to the county level) while WI initially issued a lockdown order which has since been lifted, following by gradual re-introduction of distancing measures. We received further comfort from mgmt. on our recent fireside chat where the company affirmed the recent uptick in sales – a notable positive given one of the more conservative sales guidance outlooks and further bolstering what we expect to be a reaffirmation of full-year guidance as we remain above the midpoint. Among the other positive developments of late, the WI commission lifted the moratorium on disconnections effective Jul 25, after IA had issued a similar order effective Jul 1. WI utilities are likewise able to resume charging late payment fees on accounts in arrears effective Jul 15, all factors that are trending toward gradual normalization – though the PSC had previously issued an order for deferral of Covid-related costs included those associated with bad debts and the disconnect moratorium.

Table 4: LNT sales earnings sensitivity

	EPS sens to 1% move	Apr	Apr-May
All Classes		-9%	-8%
Residential	$0.02	4%	4%
Commercial	$0.01	-13%	-12%
Industrial	$0.01	-13%	-12%

Source: Company report

WI stabilization in Q3, Solar approval expected in 1H21

LNT's rate WI stabilization asks for the same ROE & Equity layer, and escrow treatment of pension & bad debt. With ~$500mn in rate base additions, 1/3 will be offset with lower fuel costs and the remainder related to taxes. The decision on the stabilization plan is expected to come down in Q3, with staff recommendations to the PSC the next meaningful milestone.

During Q2 announced plans for the initial 675MW tranche of its eventual 1 GW solar portfolio at a purchase consideration of $900m of which tax equity partner would sponsor 35-40% of the investment outlay with the rest being financed by LNT's Wisconsin subsidiary - $780m is included in the capex plan across the full 1 GW portfolio. The company indicated to purchase tax equity's ownership in the projects within 10 years of operation. We note that LNT already signed purchase and sale agreements with the developers, subject to pending approval from the regulators, however, none of the projects are currently under construction. The company anticipates 425MW to be placed in service by 2022 and 250MW in 2023 – see below. We note positive signs toward eventual approval given the state PSC's pro-renewables stance (recently appointed third commissioner comes from a renewable advocacy group) and overall constructive utility-regulator relationships across the state.

Table 5: LNT initial 675 MW solar projects

Name	Capacity (MW)	In Service
Crawfish River	75	2022
Onion River	150	2022
Richland County	50	2022
Wood County	150	2022
Grant County	200	2023
North Rock	50	2023

Source: Company report

Estimates

We had previously forecast Covid impact into our '20 estimates for LNT and remain 1 cent below the midpoint of the $2.34-2.48 guidance range at $2.40, tweaking our forecast incrementally to reflect updated ATC ROE following the FERC's MISO ruling. We note that positive weather trends in late Q2 and early Q3 bode well for a sales tailwind during the peak cooling season, with encouraging sales trends as previously highlighted by the mgmt. team further de-risking the near-term outlook. We remain near the upper end of mgmt.'s 5-7% EPS range looking out further ahead.

UPDATE TABLE

Table 6: LNT updated ests

EPS by Segment	2017A	2018A	2019A	2020E	2021E	2022E	2023E
IPL	$0.94	$1.13	$1.19	$1.35	$1.43	$1.50	$1.52
WPL	$0.80	$0.89	$0.97	$0.95	$1.04	$1.13	$1.21
ATC	$0.11	$0.13	$0.13	$0.14	$0.14	$0.15	$0.15
Parent/Other	$0.09	$0.02	$0.01	-$0.04	-$0.04	-$0.03	-$0.03
Total	$1.93	$2.17	$2.31	$2.40	$2.58	$2.75	$2.86
Prior Estimates	$1.93	$2.17	$2.31	$2.40	$2.57	$2.74	$2.85
EPS Guidance							
IPL +WPL		*2.04 - 2.07*	*2.21 - 2.23*				
ATC		*0.10 - 0.12*	*0.11 - 1.13*				
Parent/Other		*(0.01) - 0.00*	*(0.05) - (0.03)*				
Guidance	$1.89-$1.97	$2.13-$2.19	2.27-2.33	2.34-2.48			
Non-GAAP EPS Growth Off $2.26 in '19 (5-7%)				6.35%	6.82%	6.78%	6.04%
Consensus	$1.95	$2.16	$2.30	$2.40	$2.58	$2.71	$2.85
Consensus CAGR					6.86%		
Mid				$2.41	$2.56	$2.71	$2.87
High				$2.48	$2.65	$2.84	$3.04
Low				$2.34	$2.46	$2.58	$2.71
Model Embedded ROEs / Equity	2017A	2018A	2019E	2020E	2021E	2022E	2023E
IPL							
Regulatory ROE (Avg)	9.2%	9.8%	9.0%	9.0%	9.3%	9.5%	9.7%
GAAP ROE (AVG)	8.4%	8.9%	8.5%	9.4%	9.5%	9.4%	9.2%
WPL							
Regulatory ROE (Avg)	10.5%	10.1%	10.1%	9.7%	9.9%	9.9%	10.0%
GAAP ROE (AVG)	10.1%	10.3%	10.3%	9.8%	10.4%	11.0%	11.4%
ATC							
Earned ROE	10.5%	10.8%	10.5%	10.5%	10.5%	10.5%	10.5%

Source: BofA Global Research, Bloomberg

Valuation

We update the peer multiple to 17.1x for electric. We reiterate Buy with a $54.50/sh PO.

Table 7: LNT updated SOTP

2022E SotP Analysis - BofAe										
All figures in USD millions except per share										
Regulated Utilities	2022 Net Income	EPS	P/E Multiple					Equity Value		
			Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Electric			-	17.1x	-	-	- -	-	-	-
Group EPS '18-'22 CAGR - Electric			-	5.00%	-	-	- -	-	-	-
Relative Utility Group P/E Multiple			-	- 18.0x	-	-	- -	-	-	-
IPL	$376	$1.50	19.0x	18.0x	2.0x	20.0x	21.0x	$7,135	$7,512	$7,888
WPL	$284	$1.13	20.0x	18.0x	3.0x	21.0x	22.0x	$5,669	$5,953	$6,237
ATC (LNT Share)	$37	$0.15	19.0x	18.0x	2.0x	20.0x	21.0x	$699	$736	$773
EPS (w/o Parent)	$697	$2.78						$13,504	$14,201	$14,898
Parent NI	-$7	-$0.03	18.0x	18.0x	1.0x	19.0x	20.0x	($132)	($140)	($147)
Add Back: Parent Interest Exp	$14	$0.05	18.0x	18.0x	1.0x	19.0x	20.0x	$245	$129	$272
Less: Parent Debt (Term Loan AEF)					*50% weighting*			($500)	($500)	($500)
								($388)	($511)	($375)
Total Implied			19.0x			19.8x	21.0x	$13,116	$13,690	$14,523
Shares Outstanding (2022E)								251	251	251
Total Equity Value Per Share								$52.00	$54.50	$58.00
Total Return Analysis										
Price Objective									$54.50	
Implied Return									7.60%	
Dividend Yield									2.80%	
Total Return									10.40%	

Source: BofA Global Research, Bloomberg

Ameren (AEE)

Among the positive drivers we see for Q2 is normalization of weather from 2019, partially offset by cooler weather as expressed by Heating Degree Days (HDDs), though this impact is tempered by fewer Cooling Degree Days (CDDs) both y/y and vs. normal. We estimate the positive impact from new rates in MO effective Apr 1 as 7 cents based on a pre-tax revenue net of fuel estimate of $83m, of which AEE is expected to realize ~80% during 2020 and which we assume is spread proportionally through the year. Normalization to account for a Callaway outage in 2019 would represent a further 8 cent uplift. We estimate 8 cents positive impact from O&M, which is roughly evenly split between Company Owned Life Insurance (COLI) benefit and additional non-fuel O&M savings included in the MO order (~5 cents each), offset partially by 2 cents of additional O&M inflation as per AEE's original guidance. On the negative side of the ledger we estimate 7 cents associated with COVID-19 impact relative to the company's expectation of 10 cents drag for the year given that MO began lifting its stay at home orders in early May. We also see 2 cents of interest expense as Ameren MO issued $465m at 2.95% in late Q1 and AEE issued $800m at 3.50% in early Q2, though only $435m of these issuances were allocated to refinancing with the remainder representing incremental interest expense. We also reflect proportional impact of an estimated 2 cent effect from higher bad debt expense, as well as a partial offset resulting from the Federal Energy Regulatory Commission (FERC) ROE ruling which effectively raised Ameren Transmission Company of Illinois's (ATXI) authorized ROE by 14 bps (~1 cent impact annualized). We estimate AEE EPS at $0.86/sh for Q2, slightly above $0.84/sh consensus estimates; we see upside risk to Street estimates as they are updated to fully reflect Q2 drivers, in particular the constructive MO rate ruling.

Q2 earnings walk

Table 8: AEE Q2 walk

Ameren 2Q20 Earnings Walk	Notes	EPS
2Q19 EPS		$0.72
Return to normal weather	Mild	$0.06
2Q20 weather impact	Cooler weather y/y	($0.04)
AEE Illinois		
IL Electric	2019 Average 30 YR UST was 2.75% vs. Current @ 1.431%	($0.02)
IL Gas		$0.01
IL Transmission/Dist./ATXI	Ratebase growth largely balanced by ROE change	$0.01
AEE Missouri		
New Rates	Effective 2Q20	$0.07
Callaway refueling		$0.08
PISA Benefit		$0.00
MEEIA Benefits	2020 impact weighted to 2H	$0.00
O&M, Other	Lower O&M over the year (a change for 2Q)	$0.08
Interest Refinancings	Two refis in Q2	($0.02)
Parent Company income tax exp		$0.00
Dilution	Dividend reinvestment plan and employees - $100Mn/yr	($0.00)
COVID-19	Reduced demand (2Q lift in May)	($0.07)
Other	Bad debt (2c for the year) & FERC (14bps adder)	($0.01)
2Q20E BofA Adjusted EPS		$0.86
2Q20E BofA Modeled EPS		$0.86
2Q20 Consensus		$0.84
BofA 2020E EPS		$3.45
2020 Consensus		$3.42
2Q19 Shares outstanding		247
2Q20 Shares outstanding		248

Source: BofA Global Research estimates, Bloomberg

Framing the latest debates and items to watch

We catch up on the latest moving parts across AEE's territory ahead of the Q2 call.

MO rate case a positive near term, appears underappreciated by investors

Among the key takeaways from the recent MO rate case settlement, in our view, are a reduction in revenues of -$32m, and a further reduction of fuel cost expenses (-$115m) and other costs by an additional -$50m. The net impact on an annualized basis is +$133m given AEE's ability to effectively manage these costs. With rates taking effect April 1st AEE should realize a partial year impact in 2020 - we calculate the annual impact of this result is $0.40/sh, or a 2020E impact of $0.30 (previously reflected in our estimates). Given the constructive nature of this rate case outcome, we think AEE is unlikely to seek to file another rate case in 2020. We believe the key considerations in terms of timing remain the impact of COVID-19-related shutdowns on lost sales and additional expenses as well as the placement of additional wind assets into service. The Street consensus estimates are anchored toward the low end of mgmt.'s guidance range following Q1 reporting and the outbreak of COVID-19 – though we believe a constructive rate case outcome could provide AEE with an O&M tailwind going into H2, with potential for an upside surprise to full-year results.

700 MW wind projects in service in late '20/early '21

AEE MO is adding 700 MW of wind generation to its fleet in two tranches: a 400 MW facility expected to be in service by year end 2020 and a second 300 MW facility which is largely expected to be in service in 2020 with approx. $100m of assets in Q1 2021. Prior to being added to AEE's rates as part of a rate case, the projects qualify for a partial return under the MO Plant in Service Accounting (PISA) framework and existing renewable rider. MO's PISA mechanism allows the wind assets that are placed into service to earn a partial return until a formal rate case: AEE plans to defer 85% of the depreciation on the newly installed project and earn a debt return on the non-equity portion of the assets placed in service, with the remaining 15% depreciation qualifying for cash recovery under the existing renewable rider. While the company would not receive full recovery until its wind projects are added to rates, we note the PISA mechanism allows for partial recovery – likewise the expected filing date for a new rate case in the first half of 2021 is not significantly later than prior indications from mgmt.

Next filing in MO – looking like '21

Given the announced in-service timing of the wind assets, the constructive rate order received earlier this year, COVID-19 uncertainty likely to persist through the balance of 2020, and ability to earn an interim return on newly-installed wind assets, we expect AEE to file its next case sometime in 1H21 at the earliest. We believe this is largely reflected in Street estimates as the company has continued to refrain from providing specifics as to its rate case filing strategy while highlighting the need to place its wind assets in service as well as account for COVID-19 uncertainty.

IL legislation – potentially post-Nov election

While the 2020 IL spring legislative session passed without action taken on the Downstate Clean Energy legislation, we note additional opportunities for action in the coming months. The state typically holds a veto session in October or November, with potential for this session to fall after state and national elections are held. The following opportunity if no action is taken during the veto session is a lame duck session held in January, prior to the seating of the new group of legislators. Our estimates reflect the current ROE base rate of 580 basis points with the potential of an additional 100 bps in the event of passed legislation representing upside risk.

30Y UST rate visibility is limited, we assume a more conservative stance

We tweak our forecast for the 30Y UST lower by 15-25 bps across 2021-25, with our updated forecast rates remaining below 2% until 2025 when they reach 2.20%. We perceive limited visibility of Street consensus estimates of long-term rates beyond 2021 and see little consensus among investors. Accordingly we adjust our forecast to reflect a “lower for longer” outlook, which we see as appropriate given the path of rates of late and Fed signaling long-term support for the economy in the wake of COVID-19.

IRP coming in Sep, will mgmt. deliver on further retirements?

AEE’s next triannual MO IRP filing is due in Oct with the company expecting to file in Sep. Likely of particular interest among investors are prospects for the announcement of additional coal retirements other than Meramec, which is scheduled for retirement in 2022. The 2017 filing gave planned retirement dates for Sioux and Labadie as 2033 and 2036, respectively – though we see potential for one of these to be accelerated (note Sioux and Rush Island have the lowest levels of undepreciated rate base of AEE’s fleet at $0.5B and $0.6B, respectively). AEE's decision on whether it accelerates retirements of unscrubbed coal is partially tied to the unresolved 8th Circuit Case (i.e. appealing the EPA Clean Air Act mandate) and partially tied to a lack of securitization legislation. Some coal experts have questioned whether the company would rush to accelerate the retirement of the fleet if the case were still pending. In the event that the company did pursue accelerated retirement in its IRP before case resolution, we could see Labadie as a more likely target since it faces just sulphur dioxide controls rather than Rush Island's bigger violation. On the other hand, if the 8th Circuit Case were resolved and AEE's plants were ordered to install scrubbers, this hundreds of million dollar requirements could make the plants uneconomic and more ripe for accelerated retirement. We believe additional potential hurdles could be in the form of lack of securitization legislation as well as sensitivity around potential job reductions, particularly in the wake of the COVID-19 outbreak.

EVRG process: clarity should drive re-rating in AEE

Our most recent accretion analysis as well as feedback from our conversations with stakeholders in both MO and Kansas (KS) suggest that while AEE has been linked to the Evergy (EVRG) strategic process in media reports, the company is likely not a front runner were it to secure a bid. In particular, we see potential for resistance from environmentally-aligned interveners in both KS and MO should AEE emerge as the winning bidder – given EVRG’s coal-heavy fleet and AEE’s own slow adoption of renewables and unscrubbed legacy generation, we think there could be less potential opposition to an EVRG bidder with a proven track record of accelerated coal retirements and renewable transition. Some investors appear to have largely focused on other names such as NextEra Energy (NEE) as potential bidders, and we could see a modest degree of drag in AEE shares associated with the possibility of its participation in a protracted bidding process. We attribute much of the recent pressure on AEE shares to these concerns – and clarity on EVRG strategic direction in 2H could potentially drive relative outperformance of AEE shares.

Evergy, Inc: AEE linked to strategic review in news; looking at dilution from possible AEE bid 17 June 2020

Updated estimates

We see a positive skew to Street consensus estimates for 2020, particularly driven by the positive MO rate order which went into effect on Apr 1. As COVID-related shutdowns and resulting load shifts continue to pressure utilities into Q3, we believe the O&M portion in particular of the MO order could provide a key near-term tailwind. We detail our tweaked assumptions below.

- **Raising MO ROE forecast in '20 to reflect O&M savings.** We raise our EPS estimate by 3 cents to $3.45 for 2020 driven by an earned ROE of 9.8% in MO (upper end of 9.4-9.8% authorized range). We remain confident in mgmt's ability to execute.

- **Assuming a more conservative 30Y UST forecast in IL.** We tweak our forecast for the 30Y UST, reducing our forecast for yields (and corresponding IL authorized ROE) by 20-25 bps across the 2021-25 timeframe – in line with our forecast for EXC's ComEd - such that our forecast yield remains below 2% until 2025.

- **Reflecting 10.02% base ROE for transmission.** We tweak the authorized ROE at the ATXI segment to reflect the latest FERC order, reflecting a base rate of 10.02% plus 50 bps adder through the forecast. This effectively increases our estimates by ~1 cent annually through the forecast period.

We make additional tweaks to our earned ROE forecast, assuming that MO remains near the high end of its authorized range through the forecast period. We believe our forecast embeds relatively conservative assumptions – in particular in IL where we apply a more punitive UST forecast and do not reflect potential upside from possible legislation resulting in a 100 bps adder to the base authorized electric ROE. With these assumptions in place our forecast has an EPS CAGR that declines to below the midpoint of the 6-8% guidance range through 2024, though we see upside risk to our estimates as detailed above.

Table 9: Updated estimates

Consolidated Projections	2019A	2020E	2021E	2022E	2023E	2024E	2025E	Segment CAGR ('20-'24E)	Segment CAGR ('19-'24E)
Ameren Missouri	$1.72	$1.86	$2.06	$2.18	$2.28	$2.38	$2.48	6.41%	6.68%
Ameren Illinois	$1.39	$1.34	$1.46	$1.63	$1.79	$1.99	$2.19	10.36%	7.43%
ATXI	$0.32	$0.32	$0.31	$0.30	$0.29	$0.29	$0.28	-2.92%	-2.43%
Other	-$0.09	-$0.07	-$0.07	-$0.07	-$0.07	-$0.07	-$0.06		
Total EPS	$3.35	$3.45	$3.76	$4.05	$4.30	$4.59	$4.88	7.01%	6.50%
Guidance		*$3.40-3.60*							8.70%
EPS CAGR off 2020 ($3.50)			7.47%	7.52%	7.11%	7.01%	6.87%		
YoY Growth	-0.53%	2.97%	9.02%	7.57%	6.30%	6.72%	6.31%		
Prior Estimates	*3.35*	*3.42*	*3.70*	*3.99*	*4.27*	*4.61*	*4.91*		
Consensus	$3.29	$3.42	$3.76	$4.05	$4.32	$4.47		6.31%	6.33%
Average Earned ROE (Auth in parenthesis)									
Missouri (Auth: electric 9.4-9.8%, gas 9.4-9.95%)	10.3%	9.8%	10.3%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%
Illinois (Auth: electric 580bps + 30yr T, gas 9.87%)	10.0%	8.8%	10.0%	8.8%	9.0%	9.2%	9.2%	9.3%	9.4%
BofA 30-yr Treasury assumption		*1.50%*		*1.50%*	*1.50%*	*1.60%*	*1.70%*	*1.95%*	*2.20%*
ATXI (10.02% plus 50bps adder)	10.82%	10.52%	10.82%	10.52%	10.52%	10.52%	10.52%	10.52%	10.52%
Consolidated FFO/Debt	20.9%	18.0%	18.4%	18.5%	18.6%	18.8%	19.2%		
Guidance (6-8% '20-'24 off of $3.50) --> *Midpoint*		$3.50	$3.75		$3.50	$3.75	$4.01	$4.29	$4.59
Low Implied		$3.50	$3.71	$3.93	$4.17	$4.42	$4.68		
High Implied		$3.50	$3.78	$4.08	$4.41	$4.76	$5.14		

Source: BofA Global Research estimates, Bloomberg

Valuation

We reiterate our Buy rating on AEE. We embed a more conservative set of assumptions around UST rates, and remain well within mgmt.'s guidance range while seeing potentially upside looking ahead. We believe shares of AEE could continue to outperform vs. the peer group driven by near-term catalysts including the expected IRP filing, IL legislation potential, and updated long term plan which the company historically provides with Q4 results. We raise our PO to $79 from $75 to reflect the updated Electric peer group multiple of 16.3x and our tweaked estimates. Reiterate Buy on solid +6-7% EPS growth through our forecast period as we believe AEE is one of the better-positioned names in our coverage universe.

Table 10: SOTP valuation

Ameren Sum of the Parts Valuation - 2022E									
All figures in $Mn except per share									
Regulated Utilities	2022E EPS			P/E Multiple				Equity Value	
		Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Electric		-	16.3x	-	-	- -	-	-	-
Group EPS '18-'22E CAGR - Electric		-	5.00%	-	-	- -	-	-	-
		-	-	-	-	- -	-	-	-
		-	17.1x	-	-	- -	-	-	-
Ameren Missouri	$2.18	18.1x		2.0x	19.1x	20.1x	$39.57	$41.75	$43.93
Ameren Illinois	$1.63	19.1x		3.0x	20.1x	21.1x	$31.10	$32.73	$34.36
Ameren Transmission (ATXI)	$0.30	16.1x		0.0x	17.1x	18.1x	$4.87	$5.17	$5.47
Parent/Unallocated Items	-$0.07	16.1x		0.0x	17.1x	18.1x	-$1.08	-$1.15	-$1.22
Total Implied Utilities	$4.05						$74.45	$78.50	$82.55
Shares outstanding	263								
Implied P/E		19.5x							
Valuation								$79.00	
BofAe Implied Multiple								19.5x	
PO								$79.00	
Upside/downside potential								7.7%	
NTM Dividend Yield								2.70%	
Total potential return								10.6%	

Source: BofA Global Research estimates, Bloomberg

American Electric Power (AEP)

We forecast a strong 2Q20 with EPS of $1.07 vs. $1.00 in 2Q19 and $1.02 consensus, driven primarily by previously announced 2020 O&M savings in addition to $100mn COVID-related cost savings (most of these, however, will likely be temporary in nature). Weather should also likely provide some uplift. A Transmission HoldCo true-up in 2Q should be effectively offset at the VIUs and T&D utilities (by rate changes, etc.). North Central should be on schedule with the latest PUCT decision; despite the TX rejection, AEP will reallocate MW to SWEPCO's LA and AR customers and will proceed with the full 1485 MW project. We highlight concerns of over-equitizing North Central, given guidance for 50-66% equity; we now assume he high end of this range. However, the possibility of Kentucky asset sales for further equity could provide upside; we accordingly adjust for a 2x premium in our SOTP to the Kentucky Power breakout. The one-year PTC extension should act as a safeguard if there are any delays for the final two wind farms, although no delays currently expected vs. the current YE-21 timeline). We watch progress on rate cases including Kentucky Power (filed June 29th, with procedural schedule starting in early Nov, 6-month timeline, new rates could go into effect YE-21), AEP Ohio (base rate case filed June 1st, expected one-year procedural schedule), and APCo Virginia (filed March 31st, still in initial stages, with intervenor testimony on July 30th). It would seem strategic action on utilities is still dependent on the outcome of its pending rate cases. While more equity from North-Central to be disclosed formally in its cash flow outlook could be cautious, much better clarity on where it stands on its 5-7% EPS CAGR could be the bigger (offsetting) positive. Maintain Neutral.

2Q20 Earnings Walk

We estimate EPS of $1.07 for 2Q20. This compares to $1.00 in 2Q19 and consensus of $1.02.

- **Drivers:** Aside from weather, we anticipate a strong 2Q will be driven by 2020 planned O&M savings in addition to $100mn COVID-related cost savings (the majority of which will likely be non-recurring). Expect a Transmission HoldCo true-up in 2Q to be effectively offset by rate changes at OH, TX, and by the VIUs (transmission revenues).

- **Other:** A number of 2020 full-year items are weighted heavier towards 2Q. This includes COVID-related wholesale load impact (mostly in 2-3Q), 2020 O&M savings (mostly after 1Q), Texas carrying charges (a 2Q item, reversal of 2Q19), and a Transmission HoldCo true-up (a 2Q item).

- **Wildcard:** Weather should likely prove a positive with a reversion to more normalized weather from weak 2Q19 weather, in addition to more favorable weather in 2Q20.

Table 11: AEP 2Q20 Earnings Walk: nice sized beat

American Electric Power 2Q20 Earnings Walk	EPS
2Q19 adjusted earnings	$1.00
Vertically Integrated Utilities	$0.11
Wholesale/Normal Load	($0.05)
Rate Changes	$0.03
Weather	
Return to Normal	$0.01
Current Quarter	$0.02
Transmission revenues	$0.06
O&M	$0.09
Depreciation and Other	($0.04)
Int/AFUDC	$0.00
Other	($0.01)
Trans./Dist. Utilities	$0.01
Rate Changes (AEP Ohio, TX DCRF)	$0.03
OH Legacy Riders	($0.01)
OH Reg Prov	$0.00
Weather	
Weather (Texas) Normalization	$0.00

Table 11: AEP 2Q20 Earnings Walk: nice sized beat

American Electric Power 2Q20 Earnings Walk	EPS
Weather (Texas) Impact	$0.00
AEP TX transmission revenues (T-cost filings pre-ratecase)	$0.00
O&M	$0.06
TX Carrying Chgs	($0.03)
Depreciation and Other	($0.02)
Other Taxes	($0.02)
Other/AFUDC	($0.00)
Transmission Holdco	($0.05)
Investment growth (ahead of schedule)	$0.04
O&M	$0.00
True-Up	($0.09)
Other	$0.01
Generation and Marketing	$0.01
Corporate/Other	($0.01)
Dilution	($0.00)
2Q20E Adjusted EPS	$1.07
2Q20 BAML EPS	$0.98
2Q20 Consensus	$1.02
2020 BAML EPS	$4.23
2020 Consensus	$4.28
2020 Guidance	4.25-4.45

Source: BofA Global Research Estimates

North Central: Moving forward despite TX rejection

AEP has received its final regulatory decision for its multi-state 1485 MW North Central wind project and can now move ahead with its construction plans. The Public Utility Commission of Texas (PUCT) rejected SWEPCO's request to acquire a 54.5% stake in Invenergy's three wind North Central Energy Facilities. AEP's subsidiary PSO (Public Service Company of Oklahoma) will be acquiring the remaining 45.5% equity interest in the wind farms. AEP reaffirmed its plans to develop close to 1,500 MW of wind capacity in OK despite the TX rejection. SWEPCO and PSO already have received approval from AR, LA, and OK regulators, as well as from FERC. The wind farms to be owned by AEP include Traverse Wind (999 MW), Maverick Wind (288 MW), and Sundance Wind (199 MW); all three are expected to complete construction within the next two years. With the TX rejection, capacity will be allocated with 464 MW to SWEPCO's Louisiana customers, 268 MW to SWEPCO's Arkansas customers, 78 MW to SWEPCO's wholesale customers, and 675 MW to PSO's customers. On balance, this is not a meaningful setback and was somewhat anticipated given the prior pushback from the PUCT.

Concerns of over-equitizing North Central Wind

We highlight recent concerns of AEP potentially over-equitizing the North Central Wind project, following prior mgmt commentary of expectations for 50-66% equity financing. While we had previously assumed 50% equity, we now assume 66% equity/34% debt for a more conservative approach. Timing of equity needs should align with wind farms going into service; the bulk of the needs will be in 2021 (~$1.7bn capex of the $2bn total). Note that we also update our projections to reflect a shift in MW allocation to SWEPCO – AR and SPEPCO – LA, following the PUCT rejection in Texas.

For 2Q, we expect to see updated guidance on equity and capex for North Central, following a 1Q decision to defer $500mn of capex out of 2020; this update (deferral year) should be made with 2Q results. We continue to assume $2bn capex for the project, with 66% equity financing (previously 50%). Expect AEP's next published capex forecast to include North Central Wind.

We see upside, however, from the possibility of Kentucky asset sales for further equity. We thus now include a 2x premium to the Kentucky Power breakout at the VIUs in our SOTP valuation (KY Power contributes $3.40/sh to valuation).

Estimating North Central's EPS Contribution

Below we include our latest earnings impact from the North Central Wind project. We assume the company earns a regulated return based on each subsidiary's equity ratio and ROE, indicating a $13mn Net Income impact in '21 (since just 200MW would be slated to come online by year-end) and $95mn in '22. Our equity need calculation now assumes 66% equity financing for the project, and we'd expect $0.17/sh of EPS impact when the full project is online (i.e. starting in '22).

The first wind farm to be constructed in '20 will receive the 100% PTC, while the other two wind farms to be constructed by YE-21 will receive the 80% PTC. The one-year PTC extension should act as a safeguard if there are any delays at the second two wind farms.

Exhibit 2: North Central EPS Impact

North Central EPS impact	2021	2022	2023	2024	2025
Wind Additions MW	199	1485	1485	1485	1485
PSO	*90*	*675*	*675*	*675*	*675*
SWEPCO - AR	*36*	*268*	*268*	*268*	*268*
SWEPCO - LA	*62*	*464*	*464*	*464*	*464*
SWEPCO - TX	*0*	*0*	*0*	*0*	*0*
SWEPCO - FERC	*10*	*78*	*78*	*78*	*78*
Assumed Capex $M	268	1997	1997	1997	1997
Ownership Interest	100%	100%	100%	100%	100%
Equity Ratio	50%	50%	50%	50%	50%
PSO	*49%*	*49%*	*49%*	*49%*	*49%*
SWEPCO - AR	*48%*	*48%*	*48%*	*48%*	*48%*
SWEPCO - LA	*52%*	*52%*	*52%*	*52%*	*52%*
SWEPCO - TX	*43%*	*43%*	*43%*	*43%*	*43%*
SWEPCO - FERC	*50%*	*50%*	*50%*	*50%*	*50%*
ROE	9.6%	9.6%	9.6%	9.6%	9.6%
PSO	*9.4%*	*9.4%*	*9.4%*	*9.4%*	*9.4%*
SWEPCO - AR	*9.5%*	*9.5%*	*9.5%*	*9.5%*	*9.5%*
SWEPCO - LA	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
SWEPCO - TX	*9.4%*	*9.4%*	*9.4%*	*9.4%*	*9.4%*
SWEPCO - FERC	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
NI $M	13	95	95	95	95
Shares outstanding	499	520	531	534	538
Total Equity Needed ($M)	177	1318	1318	1318	1318
Issuance Price (current price)	87.5	87.5	87.5	87.5	87.5
Incremental Shares outstanding (mn)	2.0	15.1	15.1	15.1	15.1
Dilution %	0.4%	2.9%	2.8%	2.8%	2.8%
New Shares outstanding	501	535	546	550	553
EPS	0.03	0.18	0.17	0.17	0.17

Source: BofA Global Research estimates

Rate cases: Kentucky Power, APCo Virginia, AEP Ohio

Kentucky Power filed a rate case on June 29th requesting a ~$70mn rate increase at a 10.0% ROE (43.25% equity ratio). AEP expects to receive a response in June, with a procedural schedule starting in early November and new rates likely going into effect by YE-21. The timing could line up with the $1.7bn investment needs for North Central.

APCo Virginia filed a rate case on March 31st, requesting ~$65mn rate increase at a 9.90% ROE (50.31% equity ratio). This filing is still in the initial stages of the procedural schedule, and is expected to kick off with intervenor testimony on July 30th.

AEP Ohio filed a base rate case on June 1st, requesting a ~$400mn rate increase at a 10.15% ROE (54.43% equity ratio). Expect the OH procedural schedule to be roughly a year in length (in line with historical trends).

Signs PPA for 400 MW IL wind project

AEP Energy recently signed a PPA with CIP (Copenhagen Infrastructure Partners) for production of the 400 MW Panther Grove Wind Energy Facility in IL. Construction of the wind farm will start in early 2021, with COD (commercial operation date) expected in late 2022. The PPA will be secured to serve C&I customers, such as Google, looking to source clean energy for retail supply.

ApCo issued RFPs to procure 50MW solar

AEP subsidiary Appalachian Power Co. recently issued RFPs for 50MW solar capacity in West Virginia with projects having a minimum bid capacity of 10MW and in-service date of 15 December 2022, besides the projects should be located in West Virginia and interconnected to Appalachian Power's West Virginia distribution system or to the PJM Interconnection market to qualify for the federal investment tax credit. The deadline for bid submission is Aug 6 2020. This was not unexpected. We also look for parallel efforts in WV by Mon Power/FE on its future generation resource needs as well.

EPS Estimates

We provide our latest EPS estimates for AEP below.

Exhibit 3: AEP EPS Estimates

EPS	2017A	2018A	2019E	2020E	2021E	2022E	2023E
APCo	$0.67	$0.73	$0.78	$0.79	$0.82	$0.83	$0.87
I&M	$0.38	$0.53	$0.51	$0.52	$0.55	$0.54	$0.55
SWEPCO	$0.25	$0.30	$0.37	$0.36	$0.38	$0.40	$0.43
PSO	$0.15	$0.17	$0.25	$0.24	$0.27	$0.30	$0.32
Other Utes (incl. KY)	$0.17	$0.27	$0.24	$0.24	$0.24	$0.24	$0.25
KY break out	$0.13	$0.14	$0.15	$0.16	$0.17	$0.17	$0.17
North Central Wind					$0.03	$0.18	$0.17
Vertically Integrated	$1.64	$2.00	$2.17	$1.91	$2.28	$2.32	$2.42
Guidance		$2.00	$2.17	$2.19			
Ohio	$0.66	$0.66	$0.67	$0.58	$0.63	$0.64	$0.67
Texas	$0.39	$0.41	$0.41	$0.43	$0.52	$0.59	$0.63
T&D	$1.01	$1.05	$1.00	$1.01	$1.15	$1.23	$1.30
Guidance		$1.05	$1.00	$1.03			
Transmission HoldCo	$0.72	$0.75	$1.05	$1.10	$1.17	$1.26	$1.34
Guidance		$0.75	$1.05	$1.08			
AEP Energy Supply	$0.30	$0.29	$0.30	$0.32	$0.21	$0.23	$0.24
Guidance		$0.29	$0.30	$0.35			
Corp & Eliminations	$0.01	($0.14)	($0.28)	($0.33)	($0.30)	($0.28)	($0.21)
Guidance		($0.14)	($0.28)	($0.30)			
Consolidated EPS without North Central	$3.68	$3.95	$4.24	$4.25	$4.51	$4.76	$5.09
CONSOLIDATED EPS with NORTH CENTRAL WIND	$3.68	$3.95	$4.24	$4.25	$4.53	$4.94	$5.26
EPS Growth (%)		*7.5%*	*7.3%*	*0.1%*	*6.8%*	*9.0%*	*6.5%*
Previous EPS (without North Central)	*$3.68*	*$3.95*	*$4.24*	*$4.25*	*$4.52*	*$4.83*	*$5.16*
Consensus		$3.93	$4.22	$4.28	$4.63	$4.99	$5.32
BAMLe CAGR without North Central (vs '18 mid)			10.2%	5.0%	5.4%	5.5%	5.7%
BAMLe CAGR with North Central (vs '18 mid)			10.2%	5.0%	5.6%	6.4%	6.5%
Annual Guidance	3.55-3.68	3.88-3.98	4.14-4.24	4.25-4.45			
Guidance: 5-7% EPS CAGR off of '18 (or '19 orig midpt)		$\boxed{\$3.85}$	$4.19	$4.35	$4.59	$4.86	$5.15
Low			$4.14	$4.25	$4.46	$4.68	$4.91
High			$4.24	$4.45	$4.72	$5.05	$5.40
Share Count	492	493	494	496	499	520	531

Source: BofA Global Research Estimates

Valuation: Maintain Neutral, raise PO to $88

We maintain our Neutral rating and raise our Price Objective to $88 from $80. We update for the regulated peer ute multiple of 17.1x (previously 15.3x), which is the main driver of the PO change. We additionally now include a 2x premium for the Kentucky Power break out valuation. We tweak our estimates for North Central and also now reflect the associated equity issuance for the project (BofA ests at 66% equity financing up from prior 50%) for '21 and '22 (majority in '22, tied to construction needs). This implies <$1/sh accretion from the North-Central asset build now.

Exhibit 4: AEP SOTP Valuation

AEP SoTP	2022 EPS				P/E Multiple	Premium/ Discount	Value ($mn)	Value ($/Sh)
Group Peer Multiple - Electric					17.1x			
Group EPS '18-'22 CAGR - Electric					5.00%			
Vertically Integrated Utilities (SWEPCO, PSO, APCo) excl KY	$2.15				18.0x	0.0x	$20,073	$38.6
Kentucky Power break out	$0.17				18.0x	2.0x	$1,746	$3.4
T&D Utilities (Principally D) - TNC/TCC, Ohio Power	$1.23				18.0x	1.0x	$12,159	$23.4
Transmission-Only Utilities - Mostly FERC	$1.26				18.0x	1.0x	$12,374	$23.8
Parent & Other - Principally HoldCo Debt	($0.28)				18.0x	0.0x	($2,606)	($5.0)
Total Regulated & HoldCo Value	$4.53						$43,745	$84.2
Renewables								
Legacy Energy Supply + Marketing/ Increasingly Renewables	$0.23				18.0x	-3.0x	$1,789	$3.4
Total AEP Equity Value - Existing Assets								$87.6
Upside	2022E EPS (or discounted)	Capex	FFO	Earnings Impact (50% Equity)	P/E Multiple	Premium	Probability Weighted	
SWEPCO 1200MW RFP - in service '21 (mostly 80% PTC)	0.09	1,089	$75		18.0x	0.0x	100%	$1.7
PSO 1000MW RFP - in service '21 (mostly 80% PTC)	0.07	908	$55		18.0x	0.0x	100%	$1.3
Total	0.16	1,997						3.0
Probability-Weighted EPS	0.17							
Discount Factor by year	10%							
Total Capex (probability weighted)				1,997				
Total Equity Needed ($M) (assuming 50%)				1,318				
Issuance Price (current price)				87.51				
Shares Issued (mn)				15				
Dilution %				3%				
Value Dilution				($1,268)			($1,268)	($2.4)
Shares Outstanding								520
Total Equity Value Per Share								$88.0
							Price Appreciation	0.6%
							+2020 Dividend Yield	3.1%
							Total Return	3.7%

Source: BofA Global Research Estimates

American Water Works (AWK)

Amid the evolving COVID pandemic, we expect continued execution by AWK with their inaugural ten year capital forecast of $20-22Bn intact. We have less concerns on the margin around bad debt given ten of their fourteen states have already adopted accounting orders or other recovery mechanisms. We don't perceive any meaningful delays in spend or regulatory filings (albeit note the timing shift for new rates to take effect for NYAW) and remain confident in the management team following recent succession. Further acceleration in muni consolidation remains a critical tailwind out of recovery without any meaningful infrastructure bill materializing. While we appreciate the scarcity element and higher sustained investment trajectory for the subsector, we ultimately see the steep premium as unwarranted. We maintain our Underperform rating.

AWK 2Q20 Earnings Walk

We forecast 2Q20 adjusted EPS of $0.97, slightly above consensus and a $0.03 uptick y/y.

- **Key Drivers:** The primary positive drivers y/y are new rates implemented across a number of states in their footprint as well as various infrastructure surcharges. Weather tailwinds y/y and cost savings should help offset any COVID impacts and the reversal of gain on sale in the prior period, while MBB will have contribution from the new military bases.

Table 12: AWK 2Q20 Walk

AWK 2Q20 Earnings Walk		EPS
AWK 2Q19 EPS	$	0.94
Regulated		0.06
Infra Charges, Rate Cases & Step Increases		0.08
Depreciation		-0.02
COVID Challenges offset by Weather & O&M		0.00
MBB		0.02
Parent		-0.05
Interest/Other Impact		-0.02
Legacy Gain Last Year		-0.03
2Q20 BofAe Adjusted EPS	$	0.97
Consensus		$0.96
BofAe 2020 EPS	$	3.85
Guidance		3.79-3.89
2020 Consensus		$3.84

Source: BofA Global Research, Bloomberg

Reg., Leg., Muni & Military Prospects

We see AWK as particularly poised to execute on their LT plan despite the ongoing COVID pandemic. Earlier this year, the company announced a 10% dividend increase, in line with their targeted payout ratio of 50-60% and their targeted high end of the 7-10% outlined range. Along with continued regulatory filings – the company recently announced that Pennsylvania American Water filed a rate case request with the Pennsylvania Public Utility Commission for rates over a two-year period – we see the developments as affirmation by the company around their ability to manage through the crisis with its plan largely intact. With a largely resi customer base, bad debts have been our principal concern on the margin for water utilities. That said, we note accounting orders or mechanisms from the commission around recovery already in ten of the 14 states in which they operate, with discussions ongoing in all of their jurisdictions.

Following military business wins at San Antonio and West Point, both are now fully operational with contribution starting in 2Q and no delays despite the ongoing pandemic. Five other military bases remain potential candidates, with two to three expected to be awarded sometime during 3Q. Outside of the military business, we expect some drag on new partnerships for Homeowners services – the other component of AWK's non-regulated business.

Meanwhile, municipal opportunities continue to arise despite the crisis, and we perceive particular acceleration of opportunities given the latest financial strain on munis from the pandemic shock – particularly if no infra bill or lifeline materializes.

We reiterate our Underperform rating on AWK shares given the steep premium vs. electric & gas peers.

EPS Estimates

The exhibit below reflects our latest EPS estimates with annuals remaining unchanged into upcoming results. We continue to expect sustained long term growth within their 7-10% LT EPS CAGR and 7% rate base growth longer term.

Table 13: EPS Estimates

AWK	2019A	2020E	2021E	2022E	2023E
Earnings Metrics					
Regulated Water EPS	3.60	3.84	4.19	4.43	4.66
Market Based EPS	0.45	0.47	0.51	0.53	0.57
Parent and Other EPS	-0.44	-0.46	-0.43	-0.40	-0.36
Adjusted EPS	3.61	3.85	4.27	4.56	4.87
Consensus	3.61	3.84	4.21	4.54	4.95
Guidance	3.56-3.64	3.79-3.89			
Previous BofA Adj. EPS	3.61	3.85	4.27	4.56	4.87

Source: BofA Global Research, Bloomberg

Valuation

The exhibit below reflects our latest valuation: We mark to market our valuation for the latest water utility multiple of 26.9x (vs. 26.3x), with our PO shifting to $135 (vs. $133). We maintain our Underperform rating given the large premium vs. electric & gas peers, which we see as unjustified given its only modest relative growth premium.

Table 14: SOTP

Water Utilities	2022 EPS	P/E Multiple					Equity Value		
		Peer	Prem/ Discount	Low	Base	High	Low	Base	High
AWK Earnings		26.9x							
Group EPS '18-'22 CAGR		8.30%							
Water Utilities		29.1x							
NJ	$1.12		3.0x	31.1x	32.1x	33.1x	$34.86	$35.98	$37.10
PA	$1.27		3.0x	31.1x	32.1x	33.1x	$39.64	$40.91	$42.18
IL	$0.35		3.0x	31.1x	32.1x	33.1x	$10.80	$11.14	$11.49
MO	$0.50		2.0x	30.1x	31.1x	32.1x	$14.96	$15.46	$15.96
IN	$0.29		1.0x	29.1x	30.1x	31.1x	$8.46	$8.75	$9.04
CA	$0.19		-1.0x	27.1x	28.1x	29.1x	$5.16	$5.35	$5.54
Other	$0.71		0.0x	28.1x	29.1x	30.1x	$19.96	$20.67	$21.38
Regulated Water EPS	$4.43						$133.83	$138.25	$142.68
Parent/Other Drag	-$0.40		0.0x	28.1x	29.1x	30.1x	-$11.29	-$11.69	-$12.10
Market Based Business									
Military (40%)	$0.21	26.9x	-3.0x	22.9x	23.9x	24.9x	$4.87	$5.08	$5.29
Non Military (60%)	$0.32			11.0x	12.0x	13.0x	$3.51	$3.83	$4.15
Total Market Based Business	$0.53						$8.38	$8.91	$9.44
Valuation	$4.56						$131.00	$135.00	$140.00
Current Price as of 07/17/20								*$138.32*	
Dividend Yield								1.4%	
Total Return							-3.86%	-0.97%	2.65%

Source: BofA Global Research, Bloomberg

CMS Energy (CMS)

Into 2Q, we perceive the critical update for CMS to be around FY20 guidance both around the extent of ongoing pandemic load impacts as well as the ability to drive cost savings. With a stronger-than-expected 2Q with favorable weather offsetting 1Q headwinds and the ability to materialize cost savings, we expect heightened confidence around FY20 EPS from mgmt and expect CMS to more firmly reaffirm its FY20 guidance range of $2.64-$2.68 (though likely contingent upon no escalation in shutdowns from a potential pandemic resurgence). In particular, we see a comfortable cushion for CMS to meet the mid-point of its guidance range relative to consensus expectations for the low-end of the range as we raise our forecast to the mid-point of the range. We expect CMS to provide an update around run-rate load impacts in June. Further with mgmt confidence emphasizing ability to drive cost savings beyond historically demonstrated 15c offset, we expect CMS to provide greater details around the extent of cost savings. With cost savings sustained, we express CMS as better positioned around a potential increase in corp tax rates under a Dem win in Nov '20 elections, with mgmt confidence around offsets to maintain customer affordability and headroom to support capex. Indeed, we expect improved confidence into the 2Q call to further support CMS shares in light of the latest re-rating across the group to defensive premium utilities focusing on reliable earnings. Maintain Buy.

2Q20 EPS Walk: Favorable weather, softer COVID impact

We forecast 2Q20 adjusted EPS of $0.45 vs. $0.33 in 1Q19 and $0.36 consensus.

- **COVID load impact, eased from peak:** Among most meaningful negative y/y drivers are load impacts from COVID-19 shifts with shelter-in-place orders implemented in Michigan, particularly around C&I load noting 3-4c negative impact monthly based on electric load impact through April. Load impact has since halved into May and again into June with businesses mostly reopen (though many such as restaurants and bars are at 50% capacity). As such, we estimate ~7c drag from COVID load impacts for 2Q20 as a key negative y/y driver. *Expect an update around run-rate impact based on Jun/Jul trends on the 3Q call.*

- **Very 2Q favorable weather, offsetting 1Q weather headwind:** We highlight substantially favorable weather trends (9% higher CDDs relative vs. normal), which we estimate at an 8c uplift y/y (in-line with 2Q18) with higher HDDs earlier in the quarter as well driving another 1c uplift y/y (shoulder month). Further, we highlight additional positive driver of normalization of 6c/sh favorable weather in 2Q19.

- **Key drivers:** Among additional drivers include ~6c contribution from new gas rates effective Oct '19, offset by ~6c negative impact from D&A and interest (closing of larger projects drive up depreciation costs). With mgmt having emphasized its ability to drive 15c O&M flex spend to offset COVID load impacts (not a cap but rather historically demonstrated), we estimate ~5c per quarter positive impact. We estimate 2c negative impact at Enterprises/DIG given 6c delivered in 1Q20 already relative to 8-9c embedded within FY20 guidance, with mgmt noting management of the business such as timing of plant outages.

Table 15: CMS 2Q Walk

CMS Energy 2Q20 Earnings Walk		EPS
Adjusted EPS 2Q19	$	0.33
Utility		
Weather/Load		
Return to normal		$0.06
Current quarter		$0.09
COVID Load Impact		($0.07)
Rate Changes		
New gas rates effective Oct 2019		$0.06
Other		
D&A, Interest, Other expenses		($0.06)
O&M Flex Spend		$0.05
Cost savings		$0.01
Pension benefit normalization		$0.01
Parent interest		($0.01)
Enerbank Variance		$0.00
Enterprise		
New DIG contracts 2H19		($0.02)
Dilution	$	(0.00)
2Q20 Adjusted EPS	$	0.45
2Q20 Consensus		0.36
2020 BAML EPS		$2.64
2020 Consensus		$2.64
2020 Guidance		*2.64-2.68*
Shares Outstanding 2Q19		284
Shares Outstanding 2Q20		285

Source: BofA Global Research estimates, company report

FY20 guidance confidence with solid 2Q, cost execution

With highly favorable weather in 2Q offsetting 1Q unfavorable weather headwinds (~18c hit), as well as eased COVID load impacts (on a run-rate basis into June), we perceive greater mgmt confidence around FY20 guidance range. *We expect CMS to more firmly reaffirm its FY20 guidance range, though contingent upon no escalation in shutdowns driven by a potential pandemic resurgence in the state*.

In particular with our 2Q20 EPS estimate, we see 1H20 EPS of $1.21 with $1.45 remaining for 2H20 to reach the mid-point of the FY20 guidance range. Accordingly, relative to 2H19 EPS of $1.41, assuming additional COVID load impact of 6c remaining (1c per quarter based on estimated run-rate in June), against remaining 10c O&M cost savings as an offset, ~32c new gas rates offset by ~8c non-recurring benefit opportunities (mainly around favorable 2H19 sales mix) and ~12c D&A, interest, and other expense (~6c quarterly drag), we see ~10c cushion to offset any negative weather or further COVID impacts and *still* reach the mid-point of the FY20 guidance range.

Accordingly, we raise our FY20 EPS estimate to the mid-point of guidance at $2.66 ($2.64 at the low-end prior). With improved FY20, we expect CMS to maintain *its long term EPS CAGR of 6-8%*, we slightly raise forward EPS estimates as well given that CMS typically rebases EPS based on year-end results. We expect the improved confidence in ability to maintain earnings through best-in-class execution to manage earnings, further reaffirming CMS as among the most reliable utilities from an earnings trajectory perspective to investors, even without full revenue decoupling, further supporting the latest re-rating across the group to defensive premium utilities in favor of CMS.

Table 16: CMS EPS Estimates: 7.0% CAGR through '24, back to mid-point for FY20 with improved confidence around costs against easing pandemic impacts

EPS	2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E	CAGR ('19-'24)
Electric	1.62	1.89	1.79	1.94	2.02	2.12	2.22	2.33	5.4%
Gas	0.62	0.60	0.82	0.91	0.99	1.09	1.20	1.31	9.8%
Utility	2.24	2.48	2.61	2.85	3.01	3.22	3.42	3.64	6.9%
Guidance				*2.84-2.88*					
IPPs	0.08	0.10	0.12	0.10	0.12	0.12	0.12	0.12	0.4%
Guidance				*0.08-0.10*					
Enerbank	0.11	0.13	0.15	0.18	0.20	0.21	0.22	0.23	9.6%
Guidance				*0.18-0.20*					
Parent	(0.28)	(0.38)	(0.38)	(0.47)	(0.48)	(0.48)	(0.48)	(0.49)	5.4%
Guidance				*(0.46)-(0.50)*					
Consolidated	2.17	2.33	2.49	2.66	2.86	3.07	3.28	3.50	7.0%
Guidance		2.30-2.34	2.47-2.51	2.64-2.68					
Consensus			2.50	2.64	2.85	3.07	3.28		

Source: BofA Global Research estimates, company report

Extent of cost savings, key 2Q call update to be provided

With the 2Q update, among most notable of updates, we expect mgmt to emphasize its cost savings strategy and provide greater details around the extent of cost savings it has been able to realize and expectations on a forward basis. Notably, mgmt has expressed that while it has highlighted historic ability to flex cost levers up to 15c of EPS offset, mgmt has been vocal in emphasizing that this *does not represent a cap on potential cost levers*.

In terms of cost levers, *mgmt emphasized sustainable cost reduction and management systems* rather than one-time cost cuts, with lower costs rolling into '21. In particular, mgmt emphasized leverage of its *lean operating system* implemented 4 years ago, focusing on waste elimination (both through process improvements and digital technology-enabled improvements) on an ongoing basis. Additionally, mgmt emphasized outperformance already on supply chain optimization, which has been underway for 12-18 months *already*. Additionally, mgmt highlighted O&M cost reductions including work at power plant units in economic reserve to lower costs and improve reliability into the summer peak, as well as shifting O&M employees to pre-approved capital work as well. Mgmt noted remote work by employees is expected to continue to an extent post-COVID as well. *We view confidence from mgmt around extent of cost savings against improving load trends as a positive data-point, and expect a detailed update with 2Q.*

Sustaining cost savings support rate headroom, critical with election dynamic

With sustained cost savings, mgmt emphasized initiatives continuing to provide long-term rate headroom into '21-'22 given carryover benefits, with incremental customer bill headroom for capital investments continuing to make for smooth regulatory approvals, with MPSC generally supportive of capex spend proposed in proceedings.

We emphasize ability to drive customer bill headroom as particularly important against the backdrop of Nov 2020 presidential elections. With Biden tax plan proposing an increase in the corporate tax rate to 28% (from 21%), we note that in contrast to 2017 tax reform, this would have a reverse impact to customer bill headroom. In particular the change in tax rate would drive ~$60mn impact to customer rates on raised rates, with the benefit of deferred income taxes (DFITs) halved as well (relative to prior 35%) reducing to $20mn annually (from $40mn prior with 21% tax rate). Recall, CMS currently already has a DFITs pass-through to customer approved for gas (and near-term for electric), with 21% tax rate driving a $1.6Bn reevaluation of DFITs passed back over a 40-year period (~$40mn a year), with a 28% lowering the reevaluation to ~$800mn over 40 years (reduced to ~$20mn customer benefit annually). Accordingly, CMS would need to support $80mn in savings to neutralize the impact for customers on a bill basis, critical to supporting capital spend on a forward basis.

Beyond cost savings, CMS emphasizes further customer bill headroom support and comfort to offset impacts from potential increase in the corporate tax rate, with ~$90mn reduction from roll-off of Palisades PPA and ~$$30mn O&M savings from retirements of Karn 1 and 2, among other opportunities. We view mgmt's best-in-class forward-planning around cost savings and confidence in maintaining customer affordability even with tax rate headwinds as further supportive of CMS' smooth and longer-dated capex outlook relative to peers.

MPSC ratecases on track, supportive of proposed spend

With prolonged ratecase schedules driven by pandemic delays across the utility group and subsequent ROE risks, CMS notes that all MPSC meetings have continued virtually and ongoing ratecase proceedings remain on schedule, *continuing to expect a final order in its pending Gas case in late October and a final order in its pending Electric case in Dec,* given respective 10 month statutory deadlines. With both ratecases, CMS emphasizes a constructive regulatory environment as well as alignment with MPSC commissioners and staff through both its IRP and long-term gas plan in place. Accordingly, CMS emphasizes MPSC support for proposed capital spend in proceedings, further supported by its customer bill affordability efforts.

Electric case remains on track of Dec 2020 order, staff supportive of capex

Indeed with the latest MPSC staff recommendation in CMS pending electric, MPSC staff filed testimony recommending a $90mn rate increase at a 9.75% ROE, 52.5% equity ratio and $11.71Bn rate base ('21 test-year). CMS had initially filed for a $244mn rate increase at a 10.5% ROE, 52.5% equity ratio, and $11.84Bn rate base. Critically, mgmt expresses alignment on capital spend, with main difference between Staff and request being around ROE as usual (with staff proposing 9.75% ROE in the prior ratecase as well before settling at 10%). Mgmt expresses proposed investment spend as in-line with its latest capital plan as well as its 5-Yr electric distribution infrastructure investment plan filed with the MPSC in Mar '18. With O&M spend requested, mgmt expresses approx. equal split between safety/reliability spend that it is currently earning upon, discretionary spend that CMS will not spend if not approved (including tree-trimming), and spend that it is not currently earning upon but still spending.

New gas rates remain on track for Oct 2020 order, staff supportive of capex

With its latest gas case filed at the MPSC in Dec 2019, CMS requested a $244.7mn rate increase at a 10.5% ROE, 52.5% equity ratio, and $7.38Bn rate base for test year ending Sept 30, 2021. Along with its ratecase, CMS filed its 10-year Natural Gas Delivery Plan (2021-2030), which aligns with its current 10-year capital plan, including upside (*$10Bn gas capex with $1.5-2.0Bn gas upside*). In its testimony filed, MPSC staff recommended a $139.1mn rate increase at a 9.6% ROE, 52.5% equity ratio, and $7.42Bn rate base. Notably, proposed spend was largely supported with lower ROE in staff testimony as typical of proceedings. In terms of procedural schedule, a target PFD is currently scheduled for Aug 12. *A final MPSC order is expected in Oct 2020 with a 10 month requirement in place.*

With its latest gas rate case approved in late Sept 2019, mgmt highlights ~2/3rd of rate step-up contribution for FY20 as already approved. Recall, the MPSC approved a $143.5mn rate increase (inclusive of $13mn deferred taxes) at a 9.9% ROE, 52.5% equity ratio, and $6.429Bn average ratebase in Consumers Gas ratecase (U-20322), relative to CMS' requested $204mn request at a 10.75% ROE, 52.5% equity ratio, and $6.54Bn average ratebase. *Mgmt. views the approval as supportive of gas capex, with 98% of requested capex spend approved* and PUC actually calling for main pipe replacement acceleration to ~$100mn/yr (from ~$75mn/yr). As such, we see the approval as in-line with the near-term plan, with mgmt. highlighting '19 and '20 capex plan covered with the order ($1.2Bn of gas infrastructure capex supported).

Duke Energy (DUK)

With the ACP overhang in the rearview, we see the story swiftly transitioning to a utility-centered story (albeit with ~$200mn per annum in renewables) where we still see rate case risk ahead with the DEC/DEP rate cases. Ability to garner a settlement on ROE/Cap structure would be clearly constructive for shares, although with a tight timeline ahead until hearings start we perceive downside risk to a 9.75% authorized ROE (inked with industrials). Meanwhile, we expect Duke's capex outlook to be reset higher with the upcoming September IRP that is likely broader than usual with the commission likely looking for a balance between the lowest cost plan and de-carbonization efforts. The IRP is likely to be an adjudicated process with multiple scenarios in which the commission will chose from, implying that a fully defined capex update is not likely to occur until the 4Q update. As such, we perceive a particularly weak '21 outlook given the loss of ACP earnings (30-35cents) and capex likely to be backfilled post-21, although with load trending slightly more favorable vs. expectations (-2-5% annualized) we could see some cost savings sustained into next year. Nevertheless, we expect mgmt. could rebase its 4-6% growth rate off a lower 2021 number, particularly cautious for shares. Longer-term improved regulatory mechanisms (multi-year rate plans, ROE banding, riders, etc.) stemming from the Clean Energy report recommendation to the legislature remain a possibility. Net-net, we maintain our Neutral rating seeing the ~15.2x P/E multiple (adjusted for renewables) as fairly capturing the growth outlook and risks ahead.

DUK 2Q20 EPS walk

We forecast 2Q20 EPS of $0.95 compared to 2Q19 results of $1.12 (-14% YoY) and consensus estimates of $1.01. Despite the loss of ACP (-13cent headwind YoY) and COVID related pressure, we see 2020 EPS at $5.07 near the bottom-end of mgmt.'s $5.05-$5.45 range.

- **Key drivers**: Positive YoY drivers include the implementation of rates and riders at the electric utilities (+$0.06), the wholesale contract moving to formula rates (+$0.01), new rates at Piedmont (+$0.001), still AFUDC on Atlantic Coast Pipeline (+$0.01), and the contribution from the Palmer commercial renewable projects and tax benefits from previously installed projects (+$0.03). Offsetting results are regulatory lag (-$0.04), impacts from COVID on load growth (-$0.10), higher interest expense (-$0.01), preferred coupon interest expense (-$0.04), share dilution (-$0.01), and reversal of weather benefits from 1Q19 (-$0.08).

- **Unknowns**: Weather is expected to be flattish to slightly favorable, although the exact magnitude is unclear. Another unknown impact is the decline in load growth from COVID19; while mgmt. provides sensitivity for the full-year impact of $0.25-$0.35, we expect a greater proportion of this to show up in 2Q given the timing of state re-openings. Further, it remains unclear if the company was able to bend the cost curve on O&M costs, which could be a potential offset as it experience 7cent favorable variance in 2Q19 and the majority of the 40cents offset are expected to show up in 2H; we could see a push to slightly favorable O&M variance.

Table 17: DUK 2Q EPS walk

DUK 2Q20 Earnings Walk	EPS
DUK 2Q19 EPS	1.12
Weather - normalize from 1Q19	-$0.08
Weather- 1Q20	$0.01
Electric	-$0.06
Rate implementation:	
DEC SC rates (full quarter)	$0.006
DEP SC rates (full quarter)	$0.004
Florida - multi-year plan	$0.01
SOBRA - FL	$0.00
Other Riders - IN and OH	$0.04
Regulatory lag	-$0.04
Load Growth - 1%	-$0.10
AFUDC equity	$0.01
Wholesale - fixed to formula rates	$0.01
Gas	$0.01
LDC Growth	$0.00
New Rates - PNY	$0.001
AFUDC for ACP	$0.01
Tax true-up reversal	$0.00
Renewables	$0.03
Palmer (60MW) and tax benefits	$0.03
Other	-$0.07
O&M	$0.00
Interest expense	-$0.01
Other - preferred	-$0.04
Dilution	-$0.01
DUK 2Q BofAe Adjusted EPS	$0.96
Consensus	$1.01
BofAe 2020 EPS	5.07
Guidance	5.05-5.45
2020 Consensus	5.11
DUK 2Q20 Shares Outstanding	736
DUK 2Q19 Shares Outstanding	728
Tax Rate	12%

Source: BofA Global Research estimates, company report, Bloomberg

Capex: look for details in 2Q but not defined until 4Q

Following the recent cancellation of ACP, we look ahead to the 2Q call where we expect mgmt. to articulate how it intends to backfill capex after reaffirming its 5yr $56bn capex plan. While Duke Energy Florida is proposing to spend ~$1bn on 750 MW of solar projects across Florida in the next three years with ~$500mn incremental, we perceive spending associated with the IRP and looping/laterals to source gas would occur in the *latter half* of the 5yr plan. The IRP is likely to be an adjudicated process with multiple scenarios in which the commission will chose from, implying that a fully defined capex update is not likely to occur until the 4Q update. As such, we expect capex will be delayed into 2021 with potential upside to capex stemming from the IRP and gas capex not likely defined until the 4Q call.

Upcoming IRP to potentially drive upside to capex and FFO

We expect Duke's capex outlook to be reset higher with the upcoming September IRP that is likely broader than usual with the commission likely looking for a balance between the lowest cost plan and de-carbonization efforts. We see the likelihood for meaningful clean energy capex opportunities underpinned by the IRP combined with the early retirement of coal plants in a similar fashion to Dominion's in Virgina. Critically, the IRP could also add to FFO via potential for the accelerated depreciation of coal plants driving further balance sheet improvement, and we even see an angle where Duke could utilize accelerated depreciation without the IRP (i.e. rate case).

NC rate cases remain key to watch: ROE and coal ash

We continue to expect DUK's rate case in the Carolinas to have a similar outcome to Dominion's coal ash order potentially further cautious for earned/recoverable ROEs where we already assume \$0.10-\$0.13/sh eventual drag. With upcoming hearings for the DEC/DEP rate case slated for July 27 and commentary suggesting the process could take 3-4weeks, it remains unclear if a settlement can be garnered with staff despite recently inked deals w/ industrials for a 9.75% ROE as we could still see downside to authorized levels. While we continue to account for coal ash impacts with 30-40bps of lag in the outer years, a less constructive outcome on ROEs could put further pressure our EPS CAGR. Rate cases remain cautious although see risks of the negative revisions priced-in/largely known.

FERC denied DEP's request to dismiss ROE complaint

We note FERC denied DUK subsidiary Duke Energy Progress' (DEP) request to reject the complaint filed by North Carolina Eastern Municipal Power Agency (MPA) in Oct 2019 against DEP on the matter of 11% ROE included in the Fifth Amended and Restated Full Requirements Power Supply Agreement executed between MPA and DEP. The agency found 11% ROE is excessive and also produced an affidavit from GDS Associates that comprised of a couple of approaches to determine the "zones of reasonableness" in favor of its argument. While the approaches yielded ROE zone of reasonableness of 7.66–12.02% with a median of 9.41%, and 7.26–10.55%, with a median of 8.17%, respectively, MPA forecasted a reduction of 1% in the ROE would reduce the charges by \$5.8m per year. FERC dismissed DUK's argument of MPA's inability to establish the unreasonableness of the agreement, and ordered to appoint a settlement judge for a hearing with a refund effective date of Oct 11, 2019. *We note DEP has a wholesale ratebase of \$3.2B including both South and North Carolina and as of 3Q19; unclear what portion of this* wholesale *ratebase* the *ROE update would have* been. *We see this as the latest (modest) negative impact from rate case activity to Duke. This is a small portion of overall earnings with likely in ~1c (\$5.8M/yr) range but admittedly represents the latest pressure on generation – and highlights* the *latest FERC datapoint on where ROEs* (*even for generation*) *are deemed too high (as has been a focus for peer*s like E*TR's SERI already). We expect this to prove as a premium to base ROEs for transmission and as such see a ~10% figure on MtM basis as a broad proxy for generation assets.*

Alternative rate mechanism legislation

We note continued progress, although still very early stages such that Duke is still pushing the Public Utilities Commission (PUC) for alternative rate mechanisms to move forward, such as Performance Based Rates (PBRs), Multi-year rate plans (MYRPs), ROE banding, securitization, riders and others. We believe there remains potential for Duke to have a recommendation back to the legislation that would include one of these alternative mechanisms. Management did make clear that is still early on in the process, but it seems like they are headed in the right direction especially with the upcoming report due from the Governor's committee on Clean Energy. The company is currently in the education phase and there are a number of different tools to look at. All of these tools would be positive for Duke, but there are a number of steps it will take to get there as past efforts stalled/failed. With that said, we see both increased confidence from the company and corresponding stakeholder commentary as supportive for DUK's legislative prospects in the 2021 long session, although wouldn't be implemented in a rate case until 2023.

EPS estimates

We tweak our EPS estimates lower to reflect expectations that 2021 capex will be delayed and now assume a 9.7% authorized ROE for the DEP/DEC rate cases (w/ potential for further downside if litigated). Given the difficulty in attaining its 4-6% EPS outlook, we wonder if DUK mgmt. will elect to re-base on the upcoming call or defer for a later period of time. At a minimum, we expect messaging to be somewhat squishy in regards to the 2021 outlook.

Table 18: DUK EPS Estimates

EPS Estimates	2019A	2020E	2021E	2022E	2023E	2024E
Electric						
Carolinas	1.95	1.90	1.89	1.96	2.02	2.09
Indiana	0.60	0.61	0.62	0.63	0.66	0.68
Ohio - Electric	0.22	0.25	0.25	0.27	0.30	0.35
Progress- Carolinas	1.12	1.15	1.17	1.21	1.24	1.26
Progress- Florida	0.96	0.97	1.01	1.03	1.05	1.06
Commercial Transmission	0.00	0.00	0.00	0.00	0.00	0.00
Eliminations	-0.04	0.00	0.00	0.00	0.00	0.00
Consolidated Earnings	4.81	4.88	4.94	5.10	5.26	5.45
Guidance	4.77	4.94				
Gas						
Ohio - Gas	0.12	0.14	0.16	0.19	0.20	0.21
Piedmont (PNY)	0.27	0.31	0.33	0.37	0.41	0.45
Midstream Pipelines	0.24	0.11	0.04	0.05	0.06	0.08
Eliminations	0.00	0.00	0.00	0.00	0.00	0.00
Consolidated Earnings	0.62	0.56	0.53	0.61	0.67	0.74
Guidance	0.51	0.72				
Commercial Renewables	0.27	0.32	0.33	0.30	0.28	0.29
Guidance	0.32	0.33				
Parent/Other	-0.64	-0.69	-0.58	-0.53	-0.46	-0.41
Guidance	-0.60	-0.73				
Adjustments						
BofAe EPS	5.07	5.07	5.23	5.48	5.75	6.06
Previous Estimates	*5.06*	*5.07*	*5.27*	*5.53*	*5.81*	*6.12*
Guidance	*4.95-5.15*	*5.05-5.45*				
Consensus	5.02	5.08	5.34	5.60	5.89	6.20
Mgmt EPS CAGR: 4-6% from 2019-2023E	5.00	5.25	5.51	5.79	6.08	6.39
Low End	4.80	5.05	5.41	5.62	5.85	6.08
High End	5.20	5.45	5.62	5.96	6.31	6.69
BofAe CAGR '19-'24e						3.9%

Source: BofA Global Research estimates, company report, Bloomberg

The open question remains how management could reposition its long-term EPS CAGR. While ACP should force some degree of guidance update by the time of its 2Q call in coming weeks, we anticipate a more meaningful roll-forward (and rebasing of its 4-6%) is likely only with 4Q. We anticipate a more comprehensive view of mitigating offsets to the outlook including initial expectations from its September IRP filing in the Carolinas and other mitigating capex (transmission, gas) to address ACP delays.

Valuation: PO of $87

We move our PO to $87 (from $84) based on mtm of peer utility multiples of 17.1x and 15.9x for gas and electric (from 16.4x and 15.6x), our lower EPS estimates. Net-net, we maintain our Neutral rating seeing the ~15.2x P/E multiple (adjusted for renewables) as fairly capturing the growth outlook and rate case risks ahead -> just what earned ROEs assumed in the Carolinas will be key.

Table 19: DUK SOPT Analysis

Duke Energy Sum of the Parts Valuation
2022E
All figures in $Mn except per share

	Metric		P/E Multiple						Equity Value	
	2022 EPS	Low	Peer	Prem/ Discount	Base	High	-	Low	Base	High
Group Peer Multiple - Electric	-	-	17.1x	-	-	-	-	-	-	-
Group EPS '18-'22 CAGR - Electric	-	-	5.00%	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Electric Utilities			18.0x							
Duke Energy Carolinas	$1.96	17.0x		0.0x	18.0x	19.0x		$33.22	$35.18	$37.14
Duke Energy Progress/Carolinas	$1.20	17.0x		0.0x	18.0x	19.0x		$20.42	$21.63	$22.83
Duke Energy Florida	$1.02	18.0x		1.0x	19.0x	20.0x		$18.37	$19.39	$20.41
Duke Energy Indiana	$0.63	18.0x		1.0x	19.0x	20.0x		$11.40	$12.03	$12.67
Duke Energy Ohio/Kentucky	$0.27	17.0x		0.0x	18.0x	19.0x		$4.57	$4.84	$5.10
Total Electric Utility Value	$5.09							$87.97	$93.07	$98.16
Group Peer Multiple - Gas			15.9x							
Group EPS '18-'22 CAGR - Gas			5.10%							
Gas Utilities	2022 EPS		16.7x							
Duke Energy Piedmont	$0.37	15.7x		0.0x	16.7x	17.7x		$5.81	$6.18	$6.55
Duke Energy Ohio/Kentucky Gas	$0.19	15.7x		0.0x	16.7x	17.7x		$2.93	$3.12	$3.30
Total Gas Utility Value	$0.56							$8.74	$9.29	$9.85
Commercial Segment	2022 EBITDA									
Remaining Midstream assets	$107	8.0x	9.0x	0.0x	9.0x	10.0x		859	967	1,074
Transmission Segment	$6	8.0x	9.0x	0.0x	9.0x	10.0x		52	58	64
Segment Net Debt	-$3,623							-3,623	-3,623	-3,623
Add back Renewable Debt	$2,468							2,468	2,468	2,468
Renewables Segment NPV @ 8% Discount	$1,291							1,291	1,291	1,291
New Renewables NPV	$471							471	471	471
Net Infrastructure Equity								1,518	1,632	1,746
Net Infrastructure Equity Per Share								$2.08	$2.10	$2.39
Parent	2022 EPS									
NMC (Saudi Chemical JV)	$0.05	11.0x		-6.0x	12.0x	13.0x		$0.55	$0.60	$0.65
Parent Interest attributed to utility - 50%	-$0.53	19.1x		0.0x	18.1x	17.1x		-$5.03	-$4.77	-$4.50
Parent Debt- 50%	-$20,702							-$13.34	-$13.34	-$13.34
Total Equity Value								-$17.82	-$17.50	-$17.19
Shares Outstanding									776	
Total Equity Value								$81.00	$87.00	$93.00
Current Share Price								$82.40	$82.40	$82.40
NTM Dividend Yield									4.65%	
Total Return									10.23%	

Source: BofA Global Research estimates, company report, Bloomberg

DTE Energy

We forecast 2Q20 adjusted EPS of $1.27 vs. $0.99 in 2Q19 and $1.13 consensus. We expect that unlike Q1, Q2 will receive a boost from weather in particular with a higher incidence of CDDs in Q2 relative to last year and normal patterns – with Q2 typically a shoulder quarter we do expect some uplift from weather impact particularly as it appears that CDDs in June were 30%+ higher than normal. We estimate that Covid impact on electric sales will be felt most acutely in Q2 given the pace of phased reopening in DTE's MI territory, and we expect approximately half of DTE mgmt.'s forecast $40m decline in sales on an annualized basis to fall in the quarter.

- **Key Drivers:** Primary drivers include weather which is an 18 cent uplift at the electric utility reflecting normalization of 2019 (7 cents) and an estimated 9 cent boost from warmer-than-normal weather during Q2, weighted toward June. We also note that with at least partial stay-at-home orders in place for much of the quarter, the weather boost may be greater than in a 'normal' year. We continue to incorporate the impact of new electric rates which went into effect in May 2019, as well as a partial quarter impact of the new rate increase effective this year, along with correspondingly higher D&A and interest expense. While DTE mgmt. has flagged its previous expectation to utilize financial contingency to mitigate impacts of weather on its utility results, we expect a partial offset via O&M. In the non-reg business we see the biggest jump in the midstream GSP segment as we reflect our higher y/y operating earnings as the company incorporates the contribution of its acquired Haynesville assets.

- **Unknown:** Precise weather-related impacts are difficult to estimate – Q2 2020 CDDs reported *above normal by ~2x the amount below normal in 2019*, leading to our 13 cent estimate – though we highlight some upside to estimates as weather effects may be higher in the quarter due to Covid. We expect the majority of lost sales and additional expenses related to Covid to impact in Q2, with a total 16 cent drag at the electric utility. The Energy Trading business is difficult to forecast owing to the opaque nature of its operations – given significant volatility across most asset classes in the quarter there is potential for an above/below normal quarter, although we do not incorporate this into our estimates.

Table 20: DTE Q2 2020 earnings walk: upside vs. Street despite Covid

DTE Energy 2Q20 Earnings Walk	EPS
Adjusted EPS 2Q19	$0.99
Utility	$0.16
Electric	
Weather - return to normal	$0.07
Weather - 2Q20	$0.09
2019 GRC - $273mn effective 5/2/2019	$0.12
2020 GRC - $188mn effective 5/8/2020	$0.10
D&A, Interest, Other expenses	($0.13)
O&M savings vs. last year	$0.02
Sales impact - Covid	($0.08)
Additional costs - Covid	($0.03)
OID benefit	$0.02
Gas	
Weather - return to normal	($0.02)
Weather - 2Q20	$0.03
D&A, Interest, Other expenses	($0.04)
O&M	$0.02
Sales impact	($0.01)
Non-utility business	$0.16
GSP	0.10
P&IP	0.01
ET	0.04
Corp & Other	0.01
Dilution	($0.04)
2Q20E Adjusted EPS	$1.27
2Q20E Consensus	1.13
2020E BofAe EPS	$6.62
2020E Consensus	6.59
2020 Guidance Midpoint	6.47-6.75
Shares Outstanding 2Q19	184
Shares Outstanding 2Q20	192

Source: BofA Global Research Estimates, company report, Bloomberg

Covid impact on load – Q2 seen most affected

We expect mgmt. of DTE to provide an update on sales in its service territory on the Q2 call. Recall that mgmt. has mapped out two scenarios for returning from mandated shut down orders: May start scenario contemplates most C&I customers beginning a staggered reopening in May with a return to universities and K-12 schools under the regular fall schedule, and a Slow Start scenario with industrial customers remaining idle until late summer and schools and nonessential offices remaining closed until year-end. We note that the company has indicated that the pace of reopening in its service area so far has tracked with the May reopening scenario, though the reopening of schools and universities in the fall remains uncertain given Covid upticks across much of the country. Recall that Michigan reported one of the higher declines in Industrial activity with sales falling by 43% in April at the outset of shut down orders, though we note that based on company sensitivities Residential sales have 15x the earnings impact, making the reported 10.5% increase in sales in April 3x more meaningful from an earnings standpoint.

Table 21: Estimated earnings impact from April reported sales

April reported impact

Customer type	+1% annual impact	Impact (%)	Annual earnings impact ($m)
Residential	15	10.5%	39
Commercial	6	-17.0%	(26)
Industrial	1	-43.0%	(11)
Other	2	0.0%	-
Total			3
2020 guide midpoint		1,270	
Decline impact		0.2%	

Source: BofA Global Research Estimates, company report

Below we present illustrative earnings impact (annual) for a 1% drop in sales across all customer classes based on DTE sensitivities, along with the potential impact on Q2 from a +5%, -15%, -15% drop across the three major customer classes, respectively. We also highlight that our recent work on load trends across the US supports anecdotal reports of sales bottoming out in April and beginning a gradual and uneven recovery. Uncertainty around the reopening of schools and universities in the fall will continue to weigh on forecasts for electricity demand across customer classes.

Table 22: DTE electric demand impact

Flat 1% annual impact

Customer type	Sensitivity (%)	Annual earnings impact ($m)
Residential	-1.0%	15
Commercial	-1.0%	6
Industrial	-1.0%	1
Other	-1.0%	2
Total		24
2020 guide midpoint		1,270
Decline impact		-1.9%

Q2 demand shock illustrative

Customer type	Sensitivity (%)	Annual earnings impact ($m)
Residential	5.0%	19
Commercial	-15.0%	(23)
Industrial	-15.0%	(4)
Other	-15.0%	(8)
Total		(15)
2020 guide midpoint		1,270
Decline impact		-1.2%

Source: BofA Global Research Estimates, company report, Bloomberg

Electric rate case pushed, River Rouge acc. to '21

The Michigan Public Service Commission (MPSC) **approved** DTE Electric's petition to accelerate amortization the $108m portion of its $1.4B accumulated deferred income tax (ADIT) balance associated with the 2017 tax reform law, with the accelerated timeframe requiring DTE to fully amortize by the end of 2021 instead of the end of 2033. Critically, the change in amortization will allow DTE Electric to defer its next electric rate case filing from July 2020 to at least Mar 2021 which will in effect keep customer rates flat through 2022. Yet again, de-risking DTE's utility risk profile through 2020 as far as we're concerned and reiterating our confidence in the MI regulatory backdrop. DTE's application noted that its rate filing would have sought to recover Covid-related costs – recall that per an MPSC order, uncollectibles related to Covid are subject to deferral for future recovery, while a separate docket is pending at the MPSC that will determine whether direct expenses are recoverable as well. Note that DTE mgmt. intends to offset its lost sales and direct expenses via its financial contingency, which we estimate has improved over Q1 given strong weather tailwind at the utilities. We note this is a constructive order for DTE, as ADIT flowback is typically offset by a revenue reduction (since it is normally included in a rate case) though this interim order comes with no adjustment to revenues as it is between rate cases.

In the same order, the MPSC approved early retirement of the River Rouge 3 coal plant, accelerating retirement to May 2021 from previously-scheduled 2022. DTE is required to file a transition plan by Sep 30 that will address the plant retirement and solicit feedback from the community and other stakeholders – note the MPSC order states that the plan to be filed by DTE is not subject to commission approval. As part of the plant retirement, DTE will file for securitization of the undepreciated plant (estimated at

$70m based on filings) along with approximately $120m related to spending on tree trimming. Given the ADIT flowback is typically a cash-negative event we see the concurrent securitization as mitigating most of the cash impact.

The MPSC also approved DTE Electric's amended renewable energy plan, including approvals of new renewable generation to be added to rate base and sourced via PPAs. The commission approved DTE's Meridien Wind project including all engineering and construction – the project is expected to provide 225 MW of generation when it goes in service in late 2021. The MPSC also approved solar PPAs between DTE Electric and two generation stations operated by Ranger Power for 25 year terms, totaling 128 MW of energy. The aggregate additions will bring DTE's renewable generation to the 15% by 2021 requirement set by the state.

Gas rate case – decision expected by Sept

We continue to forecast an authorized ROE reduction of 9.9% for DTE Gas (from the current 10.0%) which is in line with the decision for DTE Electric from earlier this year. Based on PSC staff recommendation of 9.6% (which is in line with the ALJ) and company request for a 10.5%, we see 9.9% as a reasonable level which would be in keeping with the Michigan PSC's history of not making drastic reductions to ROEs and taking a more gradual approach, along with recognizing the lower rate environment. We expect DTE to continue to earn its authorized ROE through the forecast period and to hit the long-term mgmt. guidance CAGR of 9.0% over the 2020-24 period. Bottom line: we expect that DTE's utilities will under-earn their authorized ROEs somewhat in 2020 as a result of sales impacts but recover in 2021 with DTE Electric achieving its authorized 9.9%, while we expect DTE Gas to receive a ~9.9% in its pending rate case.

Table 23: ROE forecast

ROEs							
Authorized	2018A	2019A	2020E	2021E	2022E	2023E	2024E
DTE Electric	10.0%	10.0%	9.9%	9.9%	9.9%	9.9%	9.9%
DTE Gas	10.0%	10.0%	10.0%	9.9%	9.9%	9.9%	9.9%
Earned							
DTE Electric	9.8%	10.0%	9.8%	9.9%	9.9%	9.9%	9.9%
DTE Gas	9.5%	10.5%	9.8%	9.9%	9.9%	9.9%	9.9%

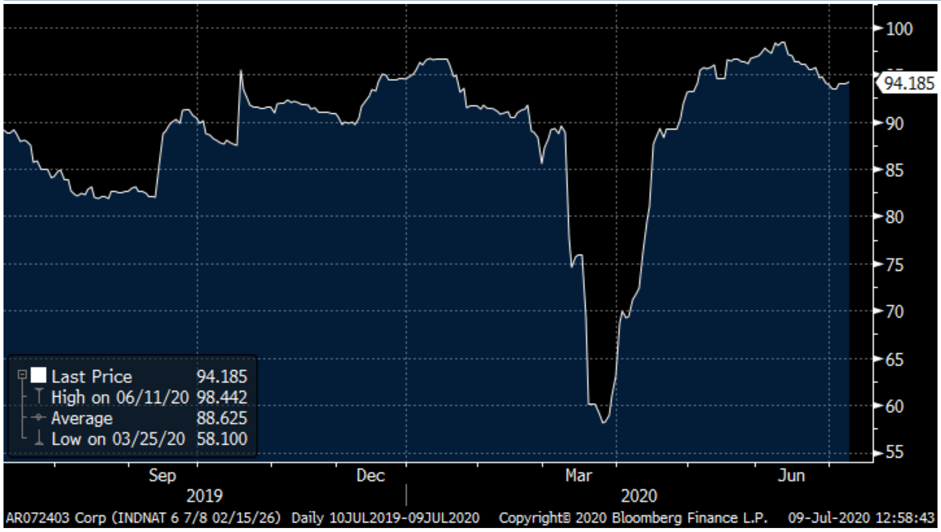
Source: BofA Global Research Estimates

Midstream: read thru from D asset sale

We are forecasting a solid Q2 for DTE's Gas Storage & Pipeline (GSP) biz at approx. $70m operating income, a step-up from the same period last year. The major driver of improved midstream performance is the Haynesville Blue Union/Leap acquisition which is in its first year as part of DTE's midstream business, along with expansions at NEXUS and contributions from the Generation pipeline acquisition. While DTE's midstream business came sharply in focus during the late-March crude oil price collapse as investors ascertained the relative strength of its midstream counterparties, we sense investors have largely grown comfortable with DTE's position – especially in light of an improving natural gas supply/demand outlook given potential exit of producers of low-cost associated gas throughout US basins. Key Haynesville counterparty Indigo has seen its bonds recover substantially – and in fact trade higher than pre-crisis levels – see our recent Upgrade to Buy for more detail.

Following the D sale of its midstream assets to Berkshire *we sense a growing interest among investors in potential further M&A in the midstream space* – while DTE made its most recent acquisition less than 12 months ago, company mgmt. has stated that it continues to evaluate its portfolio on a regular basis and would be open to potentially monetizing assets in the right circumstance; were DTE to divest midstream assets we would expect it to be a fully-developed (with compression) pipeline or storage asset, rather than under-development projects such as LEAP or Generation. We continue to largely expect a status quo outlook for the company given its focus on growth; depending on the ultimate success in Dominion re-rating higher on a stand-alone strategy (or really CMS too), this could drive a further re-think strategically. Moreover, given focus on growth at this segment only select assets would make sense to divest given need to maintain congruence of growth assets to maximize earned returns.

Exhibit 5: Indigo bonds have rebounded sharply from March lows



Source: Bloomberg

EPS Estimates

We raise our electric utility estimates on the expectation of warmer-than-normal weather enabling a rebuild of DTE's financial contingency. Our updated ests are now 1 cent above the midpoint of mgmt.'s 2020 range at $6.62 and 3 cents above Street consensus – we see upside to 2020 as well as Q2 estimates. We expect that warm weather should provide a tailwind to electric utility results following a warmer-than-normal Q2 and strong start to the key Q3: note that a higher incidence of customers remaining at home during Q3 may well contribute *more to weather impact than a normal year*, though the precise amount is difficult to estimate given uncertain path of state reopening measures. Bottom line: following DTE's reaffirmation of its 2020 guidance range on its Q1 call and commitment to re-establishing financial contingency, we expect company mgmt. will continue to project confidence on non-Covid financial mgmt. including O&M reductions intended to offset sales impacts, with a tailwind from weather in Q2 and early parts of Q3.

Table 24: DTE updated estimates: ***getting above Street on '20 and '21***

Earnings Contribution	2018A	2019A	2020E	2021E	2022E	2023E	2024E
DTE Electric	3.70	3.87	3.98	4.27	4.52	4.56	4.83
DTE Gas	0.88	0.98	0.97	1.04	1.17	1.22	1.30
Total utility	4.57	4.85	4.94	5.31	5.69	5.79	6.13
Non-utility segment							
Gas Storage & Pipeline	1.29	1.15	1.49	1.59	1.91	1.91	1.97
Power & Ind. Products	0.90	0.72	0.72	0.79	0.45	0.53	0.63
Energy Trading	0.22	0.16	0.16	0.13	0.15	0.16	0.16
Corp & Eliminations	(0.67)	(0.58)	(0.62)	(0.69)	(0.72)	(0.65)	(0.65)
% of total	*-11%*	*-9%*	*-9%*	*-10%*	*-10%*	*-8%*	*-8%*
Total non-utility	1.73	1.45	1.74	1.82	1.79	1.95	2.11
DTE Consolidated	6.30	6.31	6.62	7.12	7.46	7.72	8.23
Guidance	*0.00*	*6.02-6.38*	*6.47-6.75*				
Prior Estimates		*6.31*	*6.56*	*7.18*	*7.34*	*7.63*	*8.19*
Consensus		6.24	6.59	7.08	7.47	7.78	
			5.0%				
DTE Guidance 6% CAGR ('20-24)			6.61	7.01	7.43	7.87	8.34
Low End				6.94	7.29	7.65	8.03
High End				7.07	7.57	8.10	8.66
BofAe CAGR '20-'24e		5.6%					
Shares outstanding	*181*	*185*	*192*	*194*	*197*	*208*	*209*

Source: BofA Global Research, Bloomberg

PO to $115; Reiterate Buy

We update our PO to $115 following mtm of electric and gas peer group multiples to 16.5x and 15.6x, respectively (17.2x and 17.4x prior). We continue to value midstream assets using a base EV/EBITDA multiple of 9.0x and adjust accordingly for in-progress Haynesville assets. We note that non-equity value of DTE's midstream and other non-reg assets has rebounded from March lows which implied minimal value (low single digits), principally as investor confidence in the outlook for the midstream sector has bounced back. We reiterate our Buy rating following the MPSC constructive decision on electric rate case timing and River Rouge securitization and resulting upward tweak in '20 ests.

Table 25: DTE SOTP

DTE Energy Segments	2022 EPS	Premium /(Discount)	Group Multiple	Applied Multiple	Value
Utility					
Group Peer Multiple - Electric			16.5x		
Group EPS '18-'22 CAGR - Electric			5.00%		
DTE Electric (Distribution)	$4.52	2.0x	17.3x	19.3x	$87.26
Group Peer Multiple - Gas			15.6x		
Group EPS '18-'22 CAGR - Gas			5.10%		
DTE Gas	$1.17	2.0x	16.4x	18.4x	$21.52
Utility Debt Adjustment (20% of non reg debt)	-				
50% interest expense	($0.15) -		16.9x		($2.47)
Subtract 50% of holdco debt adjustment	($828) -				($4.19)
Utility Equity Value per Share					$102.12

Non-Utility	2022 EBITDA	Premium /(Discount)	Group Multiple	Applied Multiple	
P&I					
Cogen + Legacy Coke Batteries	79	-2.0x	8.0x	6x	$477
NPV of RNG Development	$558		Implied Multiple ---->	6.8x	$558
REF Tax Credit Value (DCF), 2020-2023 @ 6%	198				$198
Energy Trading	44	0.0x	6.0x	6x	$263
Midstream (GSP)	904	-0.3x	9.0x	9x	$7,834
Allocated EBITDA	599	0.0x	9.0x	9x	$5,394
Momentum Midstream	$305	-1.0x	9.0x	8x	$2,440
Holding Company Borrowings					
Consolidated Projected B/S					20,119
(-) Unallocated GSP Project Debt					-
(-) DTE Gas / DTE Electric Debt					(11,839)
(-) Holdco debt adjustment (20%)					(1,656)
Net Non-Utility Net Debt					6,624
Non-Utility Equity Value					$2,705
Shares Outstanding					197
Non-Utility Equity Value per Share					$13.70

	2022 EPS	Premium /(Discount)	Group Multiple	Applied Multiple	
Corp & Other (ex-Interest Expense)	(0.05)	0.0x	19.1x	19.1x	($0.96)
Utility Equity Value per Share					($0.96)

12 Month Price Objective	$115
Implied Consolidated P/E	18.2x
Dividend Yield NTMe	3.8%
Estimated Total Potential Return	10.8%

Source: BofA Global Research, Bloomberg

Edison International (EIX)

With EIX's upcoming 2Q call we expect a miss on EPS, although comparability continues to remain outside of reach given still lack of recovery on O&M memo account items as we await an outcome with the 2021 GRC. Meanwhile, we continue to assume a 20% gross up to the low-end of $4.9bn liability range assumed by mgmt. as we expect an additional $670mn in equity issuance in the outer years (w/ the $1.95bn net imputed on the balance sheet). We note that the Bellwether trial for the Thomas fire is scheduled at the end of the year while there has been no date set for the Woolsey fire. That is not to say that mgmt. cannot reach a settlement with individual claimants prior to that date. While there are thousands of individual lawsuits, if mgmt. can garner meaningful settlements, we would expect the company to update its current charge of $4.9bn, although continue to perceive the bias is to the upside in terms of total liability assumed. With upcoming fire season and focus from the company on PSPS (although still needs permission from CAISO on transmission lines) and new technology deployed by the state (Blackhawks, fire retardants, etc.), execution will be critical to watch. We now move to a 4x discount (from 3x) to capture execution risk into this fire season (equivalent to ~50% prob. of triggering the liability cap with 46% earnings at risk). Still with shares trading at a ~30% discount vs. the broader utility group, we see an opportunity for a re-rating on fire execution and more clarity on the balance sheet.

EIX 2Q20 EPS walk

We forecast 2Q20 EPS of $0.95 compared to 1Q19 results of $1.58 and consensus estimates of $1.17.

- **Key drivers**: Positive YoY drivers include increase FERC and CPUC core contribution (+$0.16), and SCE financial and other benefit variances (+$0.08). Offsetting our estimates is the reversal of CPUC true-up from the GRC (-$0.20) negative variance from O&M expenses (-$0.30), higher D&A (-$0.04), wildfire mitigation costs (not earning ROE) and interest expense on contribution to fund (-$0.07), additional parent drag given HoldCo debt (-$0.07), and share dilution (-$0.20)
- **Unknowns**: We highlight uncertainty with O&M expenses as it continues to be somewhat challenging to handicap given the company will defer costs that are over and above the authorized limit; we expect a negative variance in 2Q20, similar to 1Q20.

Table 26: EIX 2Q20 EPS walk : mild results despite decoupling

Edison International 2Q20 Earnings Walk	EPS
Edison Electric 2Q19 Adjusted EPS	$1.58
SCE	($0.37)
FERC ROE & RB Growth	($0.00)
CPUC RB Growth and 52% Equity Cap	$0.16
CPUC Test year true-up reversal	($0.20)
O&M Effect	($0.30)
Depreciation	($0.04)
Property Taxes	$0.00
Energy Efficiency	$0.00
Wildfire Mitigation Costs	($0.04)
Interest expense for fund contribution	($0.03)
Financial and Other benefits	$0.08
EIX Parent and Other	($0.26)
HoldCo Drag	($0.07)
Dilution	($0.20)
2Q20E Adjusted EPS	$0.95
2Q20 Consensus	$1.17
2020 BAML EPS	$4.46
2020 Consensus	$4.42
2020 Guidance	4.32-4.62
2Q20 Shares Outstanding	373
2Q19 Shares Outstanding	327

Source: BofA Global Research estimates, company report, Bloomberg

Assumptions for remaining '17/18 wildfire exposure

We continue to assume a 20% gross up to the $4.9bn low-end of the '17/18 wildfire liability range, with the net remaining exposure of just $670mn after adjusting for the $1.9bn imputed from rating agencies on the balance sheet. We include this equity issuance in our 2021 share count to provide a fully-diluted EPS outlook. We note that the Bellwether trial for the Thomas fire is scheduled at the end of the year while there has been no date set for the Woolsey fire. That is not to say that mgmt. cannot reach a settlement with individual claimants prior to that dated. While there are thousands of individual lawsuits, if mgmt. can garner meaningful settlements, we would expect the company to update its current charge of $4.9bn that is assuming. We continue to perceive the bias is to the upside in terms of total liability assumed.

Table 27: EIX estimated remaining equity needs for '17/18 wildfires – 20% gross up of low-end

EIX Estimated Remaining Equity		
Current Charge: 2017 Thomas, Mudslides, Woolsey Fires: Low End of Range		-4,900
Gross Up Factor	20%	-5,880
Insurance Receivable		2,000
Wildfire Liability Incl Insurance Offset		-3,880
FERC Allocation ~5%	5%	194
Net Exposure		-3,686
Post Tax Net Exposure	28%	-2,654
Amount imputed from rating agencies ($1.9bn net flows through CFI)		1,984
Remaining Exposure		-670

Source: BofA Global Research estimates, company report

Managing the upcoming wildfire season will be critical

Communication with local authorities and the state is crucial given the need to focus on investments to harden the grid ahead of the upcoming wildfire season while at the same time procuring generators for its most critical customers. We see prioritization of wildfire mitigation and communication with the market as critical, especially ahead of the upcoming wildfire season. Public Safety Power Shutoffs (PSPS) efforts are likely to continue into the '20 season; and while weather conditions similar to last year would result in less shut-offs, mgmt. is going to continue covered conductors in the riskiest areas (1K circuit miles) and re-inspect structures in more than 50% of high-fire risk areas in order to raise the wind threshold and have an overall smaller impact on customers. Recent efforts by the state to deploy Blackhawk helicopters, new retardant technologies to drive more effective suppression, and focus on wildfire mitigation (increased state budget by $90mn), should help to some extent. While utilities continue to focus on PSPS, we remind investors that to shut-off transmission lines, the company will need permission from CAISO first. At the end of the day, fire risk into 2020 will be a binary event.

Just how much exposure is there?

We estimate the T&D cap for EIX is ~$3bn ($2.1bn net of tax) as the maximum amount over a 3year period (3yr rolling average); said another way just $720mn for EIX in 2020. We note that the company would first have to eat through the $1bn insurance deductible and then go through its cap; the company had $1.2bn of insurance through June 30, 2020 and is in the process of procuring the additional amount from July 1, 2020 – June 2021. The cap represents ~46% of EIX earnings that are exposed in addition to amounts of insurance less than $1bn in any given year (subject to a prudency review).

Table 28: EIX Max Liability Cap represents ~46% of earnings on an ongoing basis

Max Liability Cap	2019A	2020E	2021E	2022E	2023E	2024E	2025E
CPUC rate base	24,600	26,760	28,848	30,870	33,270	35,770	38,156
FERC Rate Base	6,200	6,600	6,773	7,033	7,082	7,104	7,099
Total Rate Base	30,800	33,360	35,620	37,903	40,352	42,874	45,255
Less: Generation	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total T&D Rate Base	29,800	32,360	34,620	36,903	39,352	41,874	44,255
Equity Cap	48%	52%	52%	52%	52%	52%	52%
AB1054 Cap	20%	20%	20%	20%	20%	20%	20%
Total T&D Rate Base	2,861	3,365	3,601	3,838	4,093	4,355	4,602
3 -Year Rolling Average		2,942	3,276	3,601	3,844	4,095	4,350
Tax Effective @ 27%		2,148	2,391	2,629	2,806	2,989	3,176
Amount per year over 3yr period		716	797	876	935	996	1,059
BofA Earnings Estimates		1,654	1,713	1,873	2,051	2,207	2,255
% of Earnings		43%	47%	47%	46%	45%	47%

Source: BofA Global Research estimates, company report

Tracking the memo recovery: critical to limit equity

Mgmt. filed its Fire Memorandum Account (FMA) update, which initiated track 2 of the 2021 General Rate Case (GRC) proceeding. The company is seeking recovery of $509mn of O&M related expenses and $302mn of capital spending. This is considered track 2 of its memo recovery request with a decision not expected until 1Q21 with the GRC. The other items pertain to a decision with Wildfire Memorandum Expense Account (WEMA) for higher insurance cost vs. those approved (requesting $505mn in recovery) with a decision expected in Aug. 2020 and the (Catastrophic Event Memorandum Account) CEMA with a decision in March 2021 (for $88mn request). We now include an estimate for 2020 costs that mgmt. will file at YE20 w/ a decision in '22 (potentially growing by $400-500mn).

Mgmt. will defer these cost (once it consumes amount as prescribed in the GRC), although it's not getting any cash recovery, hence the impacts to credit metrics. We continue to see uncertainty around these items and look for more clarity in the coming months to understand the totality of equity needs as mgmt. has its own internal planning assumptions around recovery. Bottom line, recovery clarity could still take some time and we continue to see some risks on recovery given agencies assume this will be recovered.

Table 29: EIX Wildfire Memorandum Accounts

Memorandum Account	Capital Expenditure	O&M Spent	Total Request	Timeline
Wildfire Mitigation Plan	302	304		PD 1Q21
Fire Hazard Prevention		198		PD 1Q21
Fire Risk Mitigation		8		PD 1Q21
Total 2018-2019 FMA	302	510	500	
Track 2: Wildfire Expense Memo Account	-	341	505	PD Aug 2020
Catastrophic Event Memo Account	57	79	88	PD March 2021
Track 3: 2020 wildfire O&M assumption		~400	400	File YE20; 2022
Total Other Wildfire-related Memo Accounts	57	820	993	
Grand Total	778	1482	1,493	

Source: BofA Global Research estimates, company report

EPS Estimates

We provide our latest EPS estimates for EIX below, moving slightly higher on assumed forward looking share price issuance. Our estimates below are based on a fully diluted assumption with $670mn of incremental equity in 2021and $100mn of ongoing equity needs thereafter. We also continue to assume a constructive outcome in the 2021 GRC in that the company will be able to accrue cost savings over-time (similar to SRE) where we see a 10cent benefit in 2022.

Table 30: EIX EPS estimates and Mini-model

EIX Mini-Model	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Authorized Capital Structure								
Authorized Equity Capital %	48%	48%	52%	52%	52%	52%	52%	52%
Authorized CPUC ROE	10.30%	10.30%	10.30%	10.30%	10.30%	10.30%	10.30%	10.30%
FERC ROE Build								
FERC Base Rate	9.92%							
CAISO (RTO Participation Adder)	0.50%							
Avg Project Incentive Adder	0.78%							
Assumed Equity Capital %	-		47.5%	48%	48%	48%	48%	48%
Authorized FERC ROE Build	11.2%	11.2%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
Ratebase Growth								
Ratebase - Including Adjustments Below (Avg)	28,601	30,913	33,360	35,620	37,903	40,352	42,874	45,255
Guidance Low ($Bn) (Ex. ~$1.6Bn of fire risk mitigation from AB 1054)			33,300	35,100	37,000	39,200		
Guidance Mid ($Bn) (Ex. ~$1.6Bn of fire risk mitigation from AB 1054)	28,500	30,800	33,350	35,500	37,600	40,100		
Guidance High ($Bn) (Ex. ~$1.6Bn of fire risk mitigation from AB 1054)			33,400	35,900	38,200	41,000		
Breakdown:								
CPUC Ratebase (Avg)	22,107	24,038	26,519	28,934	31,001	33,295	35,781	38,153
FERC Ratebase (Avg)	6,144	6,875	6,841	6,686	6,903	7,058	7,093	7,102
Ratebase Growth	9.4%	8.1%	7.9%	6.8%	6.4%	6.5%	6.2%	5.6%
% FERC	23%	22%	19%	18%	18%	17%	16%	19%
Shares (Basic)	326	342	378	392	393	395	397	397
Shares (Diluted)	326	340	370	387	394	396	398	400
Ratebase-Only EPS	4.37	4.59	4.74	4.85	5.06	5.37	5.69	5.98
Additions/Subtractions to Spend								
Storage Upside (included in base CaEx			0.00	0.00	0.00	0.00	0.00	0.00
Transmission project - pending potential rejection (~$100 Mn capex)			-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Wildfire mitigation spend (~$1.6bn excluded from earning ROE)			-0.10	-0.08				
Charge Ready II ($561Mn of Capital)			0.02	0.04	0.06	0.08	0.08	0.08
Changes to Capital Structure and ROE Adjustments				New Rate Case Cycle @ 4 years				*Restart*
Cost Savings (ex-Debt Cost Savings) -> Tied to Rate Case Cycle	0.00	0.02	0.20	0.05	0.10	0.20	0.25	0.05
Interest expense from Wildfire Contribution Debt (~$1.2bn) - Opco Non-recoverable		0.00	-0.11	-0.11	-0.10	-0.10	-0.10	-0.10
Energy Efficiency	0.03	0.05	0.04	0.04	0.04	0.04	0.04	0.04
AFUDC Benefits		0.24	0.25	0.25	0.25	0.25	0.25	0.25
Corp Donations and Executive Comp *(Offsets largely AFUDC)*			-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
Parent Drag & Edison Energy								
Edison Energy Group (EEG) --> Breakeven into '20 & Beyond?	-0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Parent and Other	-0.23	-0.33	-0.31	-0.35	-0.39	-0.39	-0.39	-0.39
Toal Parent & Other Drag (Incl EEG)	-0.27	-0.33	-0.31	-0.35	-0.39	-0.39	-0.39	-0.39
Total EPS (Basic)	4.14	4.67	4.38	4.37	4.76	5.19	5.56	5.68
Total EPS (Diluted)	4.14	4.70	4.46	4.43	4.75	5.18	5.54	5.64
Previous estimate		4.70	4.45	4.42	4.73	5.16	5.52	5.62
Consensus		4.77	4.42	4.58	4.83	5.13		
Guidance		4.70-4.90	4.32-4.62					

Source: BofA Global Research estimates, company report

Valuation: $65

We move our PO to $65 based on peer multiples of 17.1x (from 17.6x) and now apply a 4x discount to our EPS assumptions (from 3x) to capture execution risk into this fire season (equivalent to ~50% prob. of triggering the liability cap with 46% earnings at risk). Still with shares trading at a ~30% discount vs. the broader utility group, we see an opportunity for a re-rating on fire execution and more clarity on the balance sheet.

Exhibit 6: EIX SOTP Analysis

EIX SOTP							
SCE Components	% SCE	Authorized ROE Reflected	2022 Earnings	2022 EPS	Peer Multiple	Premium/Discount	Value per Share
Group Peer Multiple - Electric					17.1x		
Group EPS '18-'22 CAGR - Electric					5.00%		
CPUC - Core	82%	10.30%	1,660	$4.21	18.0x	-4.0x	$58.74
CPUC/FERC - Further Capital	1%		30	$0.08	18.0x	-4.0x	$1.07
FERC	17%	10.30%	338	$0.86	18.0x	-4.0x	$11.95
Edison Energy			0	0.00	10.0x	0.0x	$0.00
Parent/Other			-155	-0.39	18.0x	-4.0x	($5.49)
Total EPS				$4.75			
Ongoing contribution to Wildfire Fund				$Mn	EPS	Multiple	
NPV of Ongoing Wildfire Contribution ($945mn over 10yrs)				($664)			($1.68)
Total Equity Value ($/sh)							$65
Price Appreciation							15.3%
NTM Yield							4.5%
Total Return							19.85%
Shares	394						

Source: BofA Global Research estimates, company report

Essential Utilities (WTRG)

With a largely resi customer composition and the shoulder season of gas, we see WTRG as well positioned to navigate the evolving COVID crisis. Execution on their capital plans remains largely intact despite modest setbacks ($30Mn) earlier this year, and we would anticipate some further tailwinds from acceleration in muni deals during a recovery period. Meanwhile, we further continue to await developments around the catch up component of repairs tax implementation as additional upside to the recently rolled out guidance with a filing expected imminently. We reiterate our Neutral rating on shares of WTRG, seeing risk/reward as fairly balanced at the current valuation.

WTRG 2Q20 Earnings Walk

We forecast 2Q20 adjusted EPS of $0.24 compared to 2Q19 adjusted results of $0.37 and consensus of $0.22.

- **Key Drivers:** The primary driver of the quarter is the dilution from the Peoples Gas acquisition. This should be somewhat offset by growth in the legacy water business: partial quarter benefit of new rates in PA along with favorable weather should help mitigate COVID related headwinds.

Table 31: WTRG 2Q20 Walk

WTRG 2Q20 Earnings Walk		EPS
WTRG 2Q19 EPS	$	0.37
Aqua		0.01
Peoples Gas		-0.03
Dilution		-0.11
1Q20 BofAe Adjusted EPS	$	0.24
Consensus		$0.22
WTRG Guidance		$1.53-$1.58
2020 Consensus		$1.53

Source: BofA Global Research, Bloomberg

Weather & Commission Help Should Mitigate COVID Impacts

WTRG has guided to 2020 earnings of $1.53-$1.58 and a 5-7% EPS CAGR through ‘22. The largely residential profile of the water biz provides some protection against load degradation while the gas biz remains in shoulder season, and we expect some benefit from favorable weather at least in 2Q. While early action was taken to maintain a more conservative amount of liquidity, bad debt has been our primary concern. That said, the May order in PA helps to de-risk this given their particularly large presence in the state: recall the PA PUC issued a letter directing utilities to track COVID expenses and authorized regulatory assets for uncollectible expenses incurred above those embedded in rates since the PUC’s March 13, 2020 Emergency Order - any regulatory asset created under the authorization contained in the Secretary's Letter will ultimately be subject to review by the PUC in future proceedings. While this won’t provide immediate help to cash flow, it should help limit degradation to P&L in the nearer term.

DELCORA Dilemna? Consolidation Prospects Remain Strong

The latest economic pressures are likely to further accelerate consolidation in the industry as muni budgets are further flex’d from the crisis - and any further resulting acquisitions would be upside to mgmt.’s latest reaffirmed targets. States we are watching in the near term include TX & OH following the passage of FMV legislation in the states early last year and VA passing the legislation more recently. While we perceive TX bids as likely more competitive, WTRG is currently the only large water utility in the state of OH - and we see particular opportunities as likely to emerge following the Campbell acquisition. We see NC as another state to watch given the new commission dynamic, albeit muni acquisitions there seem less clear cut relative to the more challenged munis in PA and IN.

Overall, we remain particularly bullish prospects for further consolidation for the water industry going forward shy of any infrastructure bill of magnitude materializing.

Meanwhile, watch developments around their pending DELCORA acquisition after the the independent authority filed an injunction to stop the county from dissolving the authority. That said, we don't see meaningful risk to the deal and it remains upside to estimates over time from the currently laid out plan.

Catch Up Filing Imminent

After closing on the Peoples Gas acquisition in Mid-March, the company elected the current component of repairs tax, reducing income tax by $5.9Bn for the quarter with expectations to drive $0.08-$0.12 worth of contribution for the year. This should limit any risk from rate cases in the state while further driving earnings upside. Meanwhile, the only rate case in North Carolina continues to progress with their request for $7Mn in additional revenue. So overall, we don't see strong reliance on rate cases to hit their targets, albeit watch timing of new rates for any acquisition upside.

Latest discussions suggested a filing for the catch up component imminently with the process taking six to nine months. We see this as the critical debate driving shares with another opportunity in the hundreds of millions over time.

Under implementation for the water biz, seven years of a ten year amortization went to the shareholder while three went to the ratepayer under a particularly constructive outcome. While it remains to be seen how the commission will rule this time around, a constructive outcome would give upside to their numbers.

We maintain our Neutral rating on shares, seeing risk/reward as balanced.

EPS Estimates

The exhibit below reflects our current EPS estimates ahead of the upcoming quarter. We see limited risk to NT numbers and continue to model to the high end of their LT CAGR guidance.

Table 32: EPS Estimates

EPS Estimates	2020E	2021E	2022E
PA	$0.73	$0.80	$0.86
OH	$0.07	$0.07	$0.08
IL	$0.07	$0.08	$0.08
TX	$0.06	$0.07	$0.07
NC	$0.04	$0.04	$0.05
Other States	$0.07	$0.07	$0.08
Water Utility	1.04	1.13	1.21
Peoples Gas	0.62	0.67	0.72
Parent & Other	*-0.10*	*-0.11*	*-0.14*
EPS	1.56	1.69	1.80
YoY Growth	*6%*	*9%*	*6%*
Guidance	1.53-1.58		
Fully Diluted Shares O/S	*254*	*254*	*254*
Previous EPS	*$1.56*	*$1.69*	*$1.80*
Consensus	1.53	1.66	1.79
DPS	0.99	1.06	1.13
Payout Ratio	*63%*	*62%*	*63%*
Guidance		*60-65%*	
Share Count	238	238	250

Source: BofA Global Research, Bloomberg

Valuation

The exhibit below reflects our latest SOTP after applying the current peer multiples to our valuation: 26.9x for water and 15.9x for gas (vs. 26.3x for water and 17.6x for gas previously). Our PO remains unchanged at $49 and we maintain our Neutral rating seeing risk/reward as balanced at the current valuation.

Table 33: SOTP

Water Utilities	2022 EPS		P/E Multiple				Equity Value		
		Peer	Prem/Disc	Low	Base	High	Low	Base	High
Peer Water P/E		*26.9x*							
Group EPS '18-'22 CAGR		*8.30%*							
1-year forward group Water multiple		29.1x							
Water Utilities									
States	2022E EPS	ROE embedded							
PA	$0.86	10.0%	2.0x	30.1x	31.1x	32.1x	$26	$27	$28
OH	$0.08	9.4%	2.0x	30.1x	31.1x	32.1x	$2	$2	$2
IL	$0.08	9.1%	3.0x	31.1x	32.1x	33.1x	$3	$3	$3
TX	$0.07	10.0%	0.0x	28.1x	29.1x	30.1x	$2	$2	$2
NC	$0.05	9.2%	1.0x	29.1x	30.1x	31.1x	$1	$1	$1
Other (including acquisitions)	$0.08	9.2%	0.0x	28.1x	29.1x	30.1x	$2	$2	$2
Water utilities total (ex-Peoples)	$1.21			*29.9x*	*30.9x*	*31.9x*	$36	$38	$39
Gas Utilities									
Peer Gas P/E		*15.9x*							
Group EPS '18-'22 CAGR		*5.80%*							
Peoples Gas Multiple		16.8x							
	2022E EPS	ROE embedded							
Peoples Gas	$0.72	12.1%	2.0x	17.8x	18.8x	19.8x	$13	$14	$14
HoldCo Debt									
(50% Netting out Debt) @ Aqua Parent			-1165	50%			($582)	($582)	($582)
'(50% P/E multiple on Interest Exp)			4.3%	50%			($531)	($492)	($576)
50/50 Weighted Drag from HoldCo Drag							($1,113)	($1,074)	($1,158)
Fully Diluted Shares Outstanding							*254*	*254*	*254*
PO							$45.00	$47.00	$48.00
Current Price								$43.88	
Dividend Yield								2.2%	
Total Return								9.36%	

Source: BofA Global Research, Bloomberg

Evergy Inc. (EVRG)

We forecast 2Q20 adjusted EPS of $0.70 vs. consensus of $0.68 and pro-forma 2Q19 results of $0.58. Our full-year forecast for EVRG of $3.06/sh reflects our expectation of drag resulting from Covid-related slowdowns – though we note EVRG remains one of the few companies in our coverage not to provide interim reporting during Q2, a decision related to the company's ongoing strategic process. We expect mgmt. will report a rebound in load across its service territory through Q2, largely in-line with utility peers, though we note EVRG remains exposed to key aerospace industrial customers in KS, with potential for a slower rebound across that sector.

- **Key Drivers:** Weather is expected to provide an uplift of $0.14/sh as we normalize for the negative effects of 2Q19 (4 cents) and account for milder weather in 2Q20 that increased the number of CDDs in EVRG's service area, particularly in KS. O&M savings including merger synergies are expected to provide an uplift of 6 cents as the company continues to look for ways to cut costs in order to realize full merger synergies, offset Sibley and Jeffery rulings from 2019 (1.5 cent drag in aggregate), and offset potential Covid-related drag on demand. We additionally see 4 cents of accretion from a lower share count in Q2 2020 following EVRG's share buyback program, but note that as this program has been suspended following the Elliott agreement this effect will abate in future quarters.

- **Unknowns:** Weather was warmer than normal in Q2 2020, particularly across EVRG's KS jurisdiction where June CDDs were well above normal. Given the greater importance of June CDDs in the shoulder Q2 quarter we expect a tailwind on results though we note the deviation from normal was more modest across MO. Weather impact on utility results is driven not just by the aggregate number of HDDs but also in the timing of deviations from norm (Jun CDDs worth more than April), and as such the precise weather impact is difficult to gauge. The Covid effect will likely be highest in Q2 as shut-in rules in EVRG's service territory were implemented in a staggered approach at the end of Q1 – we estimate a 7 cent drag.

Table 34: EVRG Q2 EPS walk

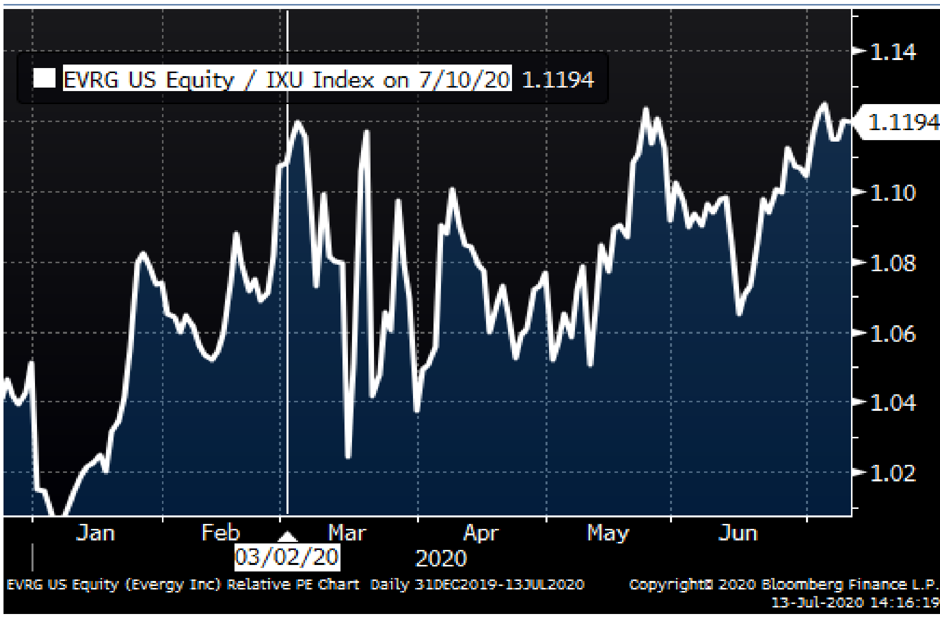
Earnings Walk	Notes	EPS
2Q19 EPS		0.58
Weather normal	Reverse favorable effect in Q2 2019	0.04
Weather 2Q20	CDD +19% vs norm; HDDs +13%	0.10
Other	Effect of COVID on load	(0.07)
2Q20 drivers:		
O&M	Cost savings, includes merger synergies	0.06
D&A expense		(0.01)
Interest expense	Incremental KCPL debt, holdco debt	(0.05)
COLI	Based on 2020 guidance	0.02
Jeffrey & Sibley	3 cent drag / annum for each, did not recognize in 2Q19	(0.02)
Accretion		0.04
2Q20E BofAe EPS		$0.70
2Q20 Consensus		$0.68
2020E BofAe EPS		$3.06
2020 Consensus		$3.05
2Q19 Share count		243
2Q20 Share count		227

Source: BofA Global Research Estimates, company report, Bloomberg

Stock trading dynamics

Shares of EVRG are back to trading near a relative high post-Covid, measured on a relative fwd 2Y PE compared to the IXU. Despite being a non-decoupled utility with exposure to two state jurisdictions, we sense investors are looking through near-term Covid impact and focusing on the potential for a constructive outcome from the ongoing strategic process. Recall that when we upgraded EVRG to Buy following the announcement of the formation of the Strategic Review and Operations Committee (SROC) on Mar 2, we applied a 2.0x premium to our electric utility peer multiple for valuation purposes after previously applying a discount to reflect EVRG's regulatory overhang and below-peer growth trajectory. With shares trading at a premium to the IXU of late we note investors remain focused on potential for a constructive SROC outcome, thought the company has not provided interim updates – we highlight the upcoming Jul 30 deadline for SROC recommendation to the board as the next key milestone, and remain Buy-rated.

Exhibit 7: EVRG relative chart



Source: Bloomberg

Covid: KS approves deferral, MO remains pending

In early July the KCC approved EVRG's petition for an Accounting Authority Order (AAO) to track and defer extraordinary costs (net of cost decreases) as well as lost revenues associated with the Covid pandemic. The AAO approval is not a finding that tracked costs and revenues will be recovered, rather that the items will be included in a future rate filing – recall that EVRG is under a rate stayout in KS until 2022 as part of its 2018 merger agreement. EVRG will be required to submit quarterly reports on the amounts tracked – including any federal or state assistance received. In its May filing, EVRG stated that several of its large industrial customers in KS – including Spirit AeroSystems, Textron Aviation, Hallmark Cards, and Goodyear – were forced to furlough employees or temporarily close facilities in its service territory. The AAO petition was supported by KCC staff in an earlier filing, nonetheless the KCC order is a constructive step for EVRG as it continues to deal with the pandemic and reflects a positive fact pattern toward eventual recovery of costs and lost revenues.

Separately, EVRG has filed testimony in its MO petition for an AAO all extraordinary costs and financial impacts that directly result from the Covid pandemic. The financial impacts include additional bad debt expense in excess of amounts recovered in rates and lost revenues, net of cost savings. As in its KS filing, EVRG disclosed that many of its large industrial customers - including a Ford plant – as well as commercial customers including casinos and the Kansas City Royals, were forced to curtail or suspend their regular business activities, though the public filing does not detail lost sales resulting from the pandemic. The EVRG testimony proposes annual progress reports to track its Covid-related items for recovery, though given the KS ruling and evolving nature of the pandemic we expect the order to be for quarterly filings, should the AAO be approved.

Recapping a busy strategic quarter & looking ahead

Below we highlight some key takeaways from a series of developments during EVRG's strategic review that took place in Q2, and look ahead to the approaching milestones during the summer months which should bring clarity to the direction of the process – whether the company will contemplate M&A or an acceleration of rate base growth via a standalone plan.

KCC moves to get involved early in strategic process

The KCC approved a staff is petition for an order initiating an investigation into the ongoing EVRG strategic review. Staff's filing flagged a high degree of concern that Elliott's focus on increasing shareholder value will come at risk of ratepayers – forcing them to pay higher prices or have to suffer less reliable service in order to maximize shareholder value. Such a result is in direct opposition to EVRG obligations under a 2018 docket and the state's goal of making rates more competitive pursuant to SB 69 according to the filing. Staff did not ask the commission to take affirmative steps, referring to its inquiry as informational in nature. Staff will also petition for a new docket should EVRG elect for a standalone plan, given impact on potential core elements of the prior merger agreement under docket 18-095. Among the specific provisions of the 2018 merger agreement, staff calls out the items below as requiring particular scrutiny in the ongoing SROC review:

- 5-year Kansas rate moratorium following the 2018 rate cases.
- Earnings sharing plan to share merger synergies with shareholders/ratepayers.
- Upfront payments and bill credits.
- Recognition of $30m of merger savings in 2018 rate cases.
- Zero involuntary terminations in KS and maintain HQ in Topeka for 10 years.

New KCC appointment brings Industrials experience

On the same day as the KCC petition filing, Gov. Laura Kelley announced the appointment of Andrew French to the KCC seat being vacated by the expiration of Shari Feist Albrecht's term. French has most recently been employed as counsel at Smythyman & Zakoura, a Topeka-based law firm where he represented large industrial and commercial customers in utility-based litigation matters. With several years of experience litigating on behalf of large utility customers French brings highly relevant experience to the KCC's review of the SROC process and EVRG's retail rates.

Missouri: Focus on jobs, legislation path less clear

In contrast to the Kansas commission which just appointed Andrew French, an experienced litigator who has previously represented large industrial customers at the commission, the MPSC's five members are seen as more open to negotiation on individual issues, without a discernible ideological bent. Stakeholders see potential for progress on a number of issues including securitization and closure of aging coal plants – though this will require legislative action. The most recent appointed commissioner is seen as a proponent of renewable energy which may further accelerate the momentum for coal retirements. Commission staff are seen as key subject matter experts on issues such as authorized holdco equity layers, with commissioners largely relying on the analysis of staff to inform their decisions on such technical topics. The incumbent Missouri governor is largely expected to not seek an additional term if reelected this

November, having taken over from the predecessor halfway into the current term. In the event that the incumbent were to lose the election a new governor would take time to replace members of the MPSC, potentially slowing approval of any deal. With commissioners not ideologically opposed to a deal, a merger proposal that includes an additional rate stayout beyond the current one which runs through 2022 would be seen as most likely to garner support.

SROC milestones approaching in coming weeks

EVRG's Strategic Review & Operations Committee (SROC) created in EVRG's agreement with Elliott outlines specific dates by which proposals must be submitted, voted on, and presented publicly. Two of the four members of the SROC are the new directors selected by Elliott - industry vets Paul Keglevic and Kirk Andrews - giving the activist manager even representation with incumbent directors. Unsurprisingly, given intense focus by utility mgmt. teams and state utility regulators (not limited to EVRG) on maintaining ongoing service amid the Covid emergency, the SROC issued an updated time frame pushing back its most significant deliverables further into the year. We view the revised timeframe below as merely reflecting the practical realities of evaluating a complex transaction amid work-from-home restrictions and market volatility and remain constructive on the overall direction of the review.

- **SROC recommendation to Board due Jul 30.** The original timeline called for the committee to present to the Board its recommendation of a transaction or standalone strategy by May 30 - note that the specific recommendation will also determine the level of public disclosure, as we detailed previously.

- **Board announcement by August 17.** Previously June 17, giving the Board the same number of days to evaluate as under the previous timeframe. We note some nuance in the language of the agreement that allows members of the SROC to publicize both recommendations in the event of a tie vote and *both Elliott-appointed directors voting for the same recommendation*, in which case the external directors are permitted to discuss their vote publicly within 5 days of the earlier Jul 30 deadline.

- **Modified standalone plan by Oct 14 if selected.** Originally the deadline was Sep 4, so the time frame for a presentation of a potential standalone plan has been pushed back by six weeks. We continue to view this as the less likely option given specific wording of the SROC agreement and note that logistics around presenting such a plan may require rethinking in the wake of Covid. Note this deadline now also impacts EVRG's reporting to the KCC that is required pursuant to the commission's recent order, which is required to answer a set of questions about the committee's decision and process.

Updated estimates

We maintain our EVRG estimates at $3.06/sh for 2020 as we had previously reduced our forecast to account for Covid-related impacts and resulting company response via additional cost-cutting (mgmt. announced an additional 1% of cuts on the Q1 call). Our estimates are 1 penny above Street in 2020 after consensus forecasts were revised down to reflect the 2020 sales outlook. Looking ahead, we make tweaks and maintain our long-term EPS growth forecast which is based on rate base growth of 3-4% based on the most recent rolled-forward capex forecast presented by mgmt. on is Q4 call. While rate base and earnings growth is certainly below the peer group, we sense investors remain focused on the outcome of the strategic review principally, with organic growth considerations currently seen as less urgent by most investors.

Table 35: EVRG estimates

Evergy, Inc. Dashboard							
EPS Estimates by Subsidiary	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Evergy Metro	$0.76	$1.06	$1.07	$1.13	$1.17	$1.20	$1.23
Evergy Missouri West	$0.35	$0.37	$0.44	$0.47	$0.49	$0.51	$0.52
Kansas Central	$1.58	$1.43	$1.67	$1.78	$1.88	$1.92	$1.95
Parent/Other	($0.19)	($0.08)	($0.11)	($0.11)	($0.11)	($0.13)	($0.16)
GAAP EPS	$2.50	$2.79	$3.06	$3.28	$3.44	$3.50	$3.53
Y/Y EPS Growth %		*11.6%*	*9.7%*	*7.1%*	*4.7%*	*1.9%*	*1.0%*
Prior estimates	$2.50	$2.89	$3.06	$3.27	$3.40	$3.47	$3.50
Consensus (BBG)		$2.92	$3.05	$3.22	$3.38	$3.54	nm
DPS	$1.84	$1.95	$2.07	$2.19	$2.30	$2.42	$2.54
Dividend Payout (60-70%)	73.5%	69.8%	67.5%	66.8%	66.9%	69.0%	71.8%

Source: BofA Global Research, Bloomberg

Valuation

We update our PO to $68 reflecting an updated electric utility peer group multiple of 17.1x (17.6x previously). Our valuation is largely unaffected by the near-term drag on our estimates related to milder weather and Covid as both are expected to normalize by 2022. Shares have re-rated vs the peer group since our upgrade to Buy though we still perceive upside to the current share price amid ongoing strategic review.

Table 36: ERG SOTP

Evergy Sum-of-the-Parts Valuation	2022 EPS	P/E Multiple					Equity Value/Sh		
		Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Electric			17.1x						
Group EPS '18-'22 CAGR - Electric			5.00%						
			18.0x						
Evergy Metro	$1.17	19.0x		2.0x	20.0x	21.0x	$22.24	$23.42	$24.59
Evergy Missouri West	$0.49	19.0x		2.0x	20.0x	21.0x	$9.32	$9.82	$10.31
Evergy Kansas Central	$1.88	19.0x		2.0x	20.0x	21.0x	$35.58	$37.45	$39.33
Parent & Other	-$0.11	19.0x		2.0x	20.0x	21.0x	-$2.00	-$2.10	-$2.21
EVRG consolidated '22 EPS	$3.44				*20.1x*		$65.00	$69.00	$72.00
	After-tax amount $m		$/sh	Probability					
Deferral of Sibley return + D&A	23		-$0.10	50%			-$1.99	-$0.99	$0.00
Shares outstanding (Average 2022)	227								
Shares outstanding (Y/E 2022)	227								
EVRG Price Objective							$63.00	$68.00	$72.00
Implied Return								7.68%	
EVRG Standalone NTM Dividend Yield								3.47%	
Total Return								11.15%	

Source: BofA Global Research, Bloomberg

FirstEnergy (FE)

We anticipate a quiet second quarter call approaching. We again expect to see the Street focus on New Jersey given it's the only regulatory rate case the company is in right now. For FERC, interim rates already took effect with a ruling on its 10.8% ROE request outstanding, and for distribution, the schedule is still outstanding. The lack of regulatory activity outside of this until 2023 is a positive in our eyes. FE is somewhat shielded from COVID impacts as Ohio is decoupled, it has a low portion of revenue that is tied industrial sales (just 7%), just 10% of industrial revenue is volumetric-based, and FE recovers uncollectible expenses in OH / NJ through a rider and in PA / WV / MD through base rates. We look for commentary on the company's $3bn per year of capex trajectory – particularly as mgmt. has noted perhaps +$400mn of additional opps. We also look for hints towards the West Virginia IRP scheduled for later this year (given FE indicated it expects it will show need for capacity), and updates on credit rating agency discussions. We forecast a 2Q20 estimate of $0.54/sh – just 1c lower than Consensus.

2Q20 EPS Walk

We forecast a 2Q20 of $0.54/sh versus a Consensus of $0.55/sh and last year's 2Q19 estimate of $0.61/sh.

- **Drivers**: We anticipate 2c of riders and decoupling along with -6c of losing the OH DMR as key drivers for the quarter.

- **Other**: 2Q is generally not a large driver for the year given it is a shoulder month; as 2Q20 saw a hotter than normal June and colder than normal April, we factor in +1c. 2Q19 was slightly mild versus normal, we assume +1c in reversing last year's impact. We also factor in -2c of D&A, lower intr exp from refinancing maturities at lower interest rates that are balanced by higher distribution & transmission interest, and a flat parent with balancing tax implications.

- **Wildcard**: We only factor in -1c of Covid impact based on the four weeks of data provided on the last earnings call (i.e. -13% in C&I and +6% in resi). We anticipate O&M savings of +1c largely offset this.

Table 37: FE 2Q20 EPS Walk

FirstEnergy 2Q20 Earnings Walk	EPS
2Q19E Adjusted EPS	0.61
Regulated Distribution	-0.04
Weather Vs normal in 2Q19	0.01
Weather Vs normal in 2Q20	0.01
Distribution sales growth / Covid impact	-0.01
Riders: Including Ohio Grid Mod, Ohio decoupling, PA LTIIP, OH DCR	0.02
OH: DMR (stopped recognizing earnings benefit)	-0.06
FE Tomorrow	0.00
O&M: Pension & OPEB	0.01
D&A and taxes	-0.02
Debt maturities	0.00
Regulated Transmission	0.01
Revenues (net of D&A and taxes): higher ratebase	0.01
Parent and Other	-0.02
Tax rate benefit	-0.02
Timing of taxes	-0.02
2Q20E Adjusted EPS	0.54
2Q20E BofAe EPS	0.61
2Q20 Consensus	0.55
2Q Guidance	0.48-0.58
2020 BofAe EPS	2.46
2020 Consensus	2.48
2020 Guidance	2.40-2.60

Source: BofA Global Research estimates, company report, Bloomberg

Key topics for 2Q20

- **Capex**: Reiterated comments made around capex during fireside chat.

- succession planning and CEO turnover are likely a 2021 item- albeit as part of an entirely regulatory path. OH is likely to continue under PUCO leadership of Sam Randazzo and with ~2.5 years of the current admin left, there remains ample time for legislation or reg reform that establishes stability

FFO/debt, Balance sheet, credit rating

FE's Balance Sheet is improving with expectations of improving credit metrics translating at first with an upgrade from S&P and subsequently Moody's, albeit still largely in the 12% FFO/debt range for our reconciliation. We' expect a positive outlook from S&P first – as early as later this year. Mgmt. has acknowledged it is discussing its credit metrics with rating agencies, with potential positive news to come from S&P considering the agency lowered its FFO/debt threshold to 12%. Moody's upgrade threshold is 14% however, so the process may be a little more protracted - but there is potential opportunity for Moody's to bring down its upgrade threshold to 13% (note Fortis' is 11-13% and FE noted it sees its companies in line with theirs in terms of credit and risk). We could expect to see FE approach a 13% FFO/debt in the next few years, particularly as FE has plans for incremental equity starting in '22 and the years after (could be up to $600mn/yr). With its FES business disposition resolved, we perceive few angles to meaningfully shift its balance sheet outlook so look to '22-'23 when the potential Moody's upgrade could be.

Rate cases

FE is one of the least exposed amongst peers to lower authorized returns given the company re-affirmed limited regulatory activity thru the forecast outlook with capex largely recovered thru riders rather than litigated cases. We suspect this limited rate case risk profile will increasingly resonate with investors keen to pursue a less volatile & overall noisy profile. Outside its NJ cases, FE is not planning to file elsewhere for several years - specifically noting for at least three years without a case. The pandemic is not expected to have an impact on timing.

We are still awaiting outcomes in NJ. For distribution, FE awaits a rate case schedule from the ALJ. NJ is just 13% of our modeled '22 EPS and that the distribution case was never included in FE's 2020 guidance. FE noted previously it expects an opportunity to settle (at the earliest later this year), and updated timing for a full case to a result in '21. Recall NJ is already FE's lowest allowed ROE at 9.6%, and we model 9-9.5% earned in the next few years. This remains among the principle (small gyrations) in outlook still.

Sustainable capex

Mgmt. continued to reiterate that it has a strong ability to execute on its ~$3bn/yr capex plans (+/- ~$400mn/yr - more likely a +). Further, the company has flexibility in its size and geographic diversity that allows it to proactively shift where it deploys capex. Mgmt. again noted that it is leaning towards not pursuing a second round of IIP at JCP&L because it currently sees itself as having accomplished reliability projects in the state, while also having enough investments in other states. The West Virginia IRP this fall is likely to drive new generation needs, improving opportunities but unclear if this will see an aggregate uptick in capex levels; we would expect a generation outlook is more likely in 2H.

Succession

The company announced plans to search for a candidate internally, we would expect any succession to take place next year at the earliest (if not longer). We see a discussion of mgmt incentives around change in control as meriting some attention. We see governance and exec comp as having improved in recent years under its regulated strategy.

Estimates

We provide our latest EPS estimates below.

Table 38: FE EPS Estimates

EPS	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Ohio Utilities	0.50	1.03	1.23	0.92	0.82	0.83	0.85	0.88	0.91	0.94
Ohio Edison (Inc PennPower)	0.35	0.59	0.64	0.50	0.48	0.49	0.51	0.53	0.55	0.57
CEI	0.09	0.27	0.39	0.26	0.20	0.20	0.20	0.21	0.21	0.22
TE	0.06	0.17	0.20	0.15	0.14	0.14	0.14	0.15	0.15	0.15
West Virginia										
MonPower	0.15	0.16	0.25	0.21	0.21	0.22	0.23	0.23	0.23	0.25
Maryland										
Potomac	0.14	0.10	0.10	0.10	0.12	0.14	0.16	0.18	0.20	0.22
New Jersey										
JCP&L	0.19	0.26	0.32	0.32	0.33	0.35	0.35	0.37	0.39	0.41
Pennsylvania	0.73	0.76	0.93	0.92	0.92	0.94	0.94	0.95	0.98	1.02
PennPower (already included in OE)	0.05	0.07	0.07	0.08	0.08	0.08	0.08	0.08	0.08	0.09
Penelec	0.21	0.22	0.32	0.29	0.29	0.30	0.30	0.31	0.32	0.33
WPP	0.27	0.25	0.23	0.24	0.24	0.23	0.23	0.24	0.25	0.26
MetEd	0.21	0.22	0.31	0.31	0.32	0.32	0.32	0.32	0.33	0.34
Regulated Utilities (Inc Transmission)	*1.66*	*2.23*	*2.75*	*2.40*	*2.33*	*2.40*	*2.45*	*2.53*	*2.63*	*2.75*
Regulated Distribution	-0.55	2.32	2.31	2.26	2.15	2.20	2.23	2.27	2.35	2.45
Guidance	2.60-2.70	2.27-2.31	2.34-2.40	2.20-2.26	2.13-2.27					
FET	0.45	0.62	0.58	0.66	0.69	0.75	0.82	0.89	0.95	1.02
Intrastate	0.28	0.13	0.21	0.16	0.18	0.20	0.22	0.25	0.27	0.30
Transmission	0.73	0.83	0.74	0.83	0.89	0.95	1.04	1.14	1.22	1.32
Guidance		.82-.84	.74-.76	.83-.84	.85-.89					
Competitive Energy Svcs.	0.60	0.46	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Guidance		0.42-0.46								
Corporate (reduced by pref)	-0.55	-0.53	-0.56	-0.51	-0.57	-0.55	-0.56	-0.55	-0.55	-0.55
Guidance		-0.51	(.58)-(.56)	(.53)-(.50)	(.58)-(.56)					
Eliminations		0.16	0.13	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Consolidated EPS	2.61	3.07	2.59	2.58	2.46	2.59	2.71	2.86	3.03	3.20
Guidance		3.00-3.10	2.50-2.60	2.50-2.60	2.40-2.60					
Previous EPS		3.07	2.59	2.58	2.46	2.59	2.71	2.86	3.03	3.20
Consensus EPS		3.05	2.54	2.53	2.48	2.63	2.76	2.89	3.02	
EPS CAGR off 2.15 (2018)					7.03%	6.47%	5.95%	5.85%	5.88%	5.83%
EPS CAGR off 2.43 ('19 2.55 Midpt less 0.12 DMR)					1.35%	3.34%	3.69%	4.13%	4.51%	4.68%
EPS CAGR off 2020						5.37%	4.89%	5.08%	5.31%	5.36%
EPS CAGR off 2021							4.40%	4.93%	5.29%	5.36%
Ex CES EPS	2.02	2.61	2.59	2.58	2.46	2.59	2.71	2.86	3.03	3.20
YoY Growth Rate Excl CEC EPS				0%	-4%	5%	4%	5%	6%	6%
Sum of the subs		3.24	2.49	2.58	2.48	2.59	2.71	2.86	3.03	3.22
Bottom - 5%			2.15	2.26	2.37	2.49	2.61	2.74	2.88	3.03
Top - 7%				2.30	2.46	2.63	2.82	3.02	3.23	3.45
Shares	429	444	538	539	543	543	549	561	572	583

Source: BofA Global Research estimates

Valuation

We provide our latest SOTP valuation below. We maintain our Buy rating and $45.50/sh SOTP valuation, tweaking our regulated peer ute multiple slightly higher to 17.1x (17.0x previously).

Exhibit 8: FE SOTP Valuation

FirstEnergy SOP Valuation									
	Metric	P/E Multiple					Equity Value ($/sh)		
	2022 EPS	Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Electric			17.1x						
Group EPS '18-'22 CAGR - Electric			5.00%						
Electric Utilities			18.0x						
FE Utilities: OH Utility (CEI, Ohio Edison, TE), Ex-DMR, Ex-PP	$0.78	16.0x		-1.0x	17.0x	18.0x	$12	$13	$14
FE Utilities: PA Utility (MetEd, WPP, PenElec, Penn Power) - WPP T Incl	$0.94	17.0x		0.0x	18.0x	19.0x	$16	$17	$18
FE Utilities: NJ Utility (JCP&L) - T&D	$0.35	17.0x		0.0x	18.0x	19.0x	$6	$6	$7
FE Utilities: Other Utility (MonPower, Potomac Ed) - T&D	$0.38	17.0x		0.0x	18.0x	19.0x	$7	$7	$7
Less: Intrastate Transmission embedded above	-$0.22	17.0x		0.0x	18.0x	19.0x	-$4	-$4	-$4
FE Utilities: Transmission (FET + Intrastate)	$1.04	17.0x		0.0x	18.0x	19.0x	$18	$19	$20
Total T & D 'Regulated' Utility EPS	$3.27				17.7x		$55	$58	$61
BAMLe Utility + Parent	$2.71								
Holding Company Liabilities & Earnings Drag									
FE: HoldCo Drag	-$0.56	16.7x		0.0x	17.7x	18.7x	-$9.4	-$10.0	-$10.6
Add Back: Interest Expense drag @ 50%	$0.22	16.7x		0.0x	17.7x	18.7x	$7.4	$3.9	$4.1
Holding Company Debt								$Mn	
Short Term Holdco Debt								$750	
Unsecured LT Debt								$6,100	
Total Debt								-$6,850	
Total Debt @ 50% Split								-$3,425	
$/Sh - Equity value in valuation								-$6.2	
Total Debt at Parent (per share)								*-$12.48*	
Other Liabilities	Liability	Probability					Low	Base	High
Shares Outstanding (2022e)								549	
Total Equity Value							$40.00	$45.50	$49.00
2020 Dividend								$1.57	
Current Yield								3.7%	
Price Return							-5%	8.0%	16%
Total Return							-1%	12%	20%

Source: BofA Global Research estimates

Pinnacle West (PNW)

We expect Q2 Operating EPS of $1.55/sh as compared to $1.34/sh Street estimates and $1.28/sh in 2019. Weather is expected to be the largest single driver as we normalize for the effects of a significantly below-normal 2019 and add further tailwind from 2020 CDDs. We further note that PNW had increased its bad debt expense target for 2020 given last year's disconnect moratorium, suggesting it may be better able to withstand an increase in delinquent accounts than peers. We see additional impact from COVID-19 on sales – though this impact appears to have largely abated as the quarter developed resulting in company-reported flat weather-normalized level of sales for a trailing 33-day period ending in June. However, given the uptick in cases of COVID-19 in the state of Arizona, we acknowledge that C&I sales may fluctuate through the coming quarter. Finally, PNW's most important earnings quarter is Q3, with potential upside to results from increased residential usage given that customer segment's higher margin contribution. While visibility around the near-term outlook appears to be improving (and for the better), we continue to see substantial risks around the pending rate case (and potential for ACC turnover), with upcoming staff testimony the next significant milestone to watch for – due Aug 3.

2Q20 Walk

We forecast 2Q20 adjusted EPS of $1.55 vs. $1.28 in 1Q19 and $1.34 Street consensus. We expect substantial upward revisions to Street estimates over the coming weeks.

- **Key Drivers:** Weather normalization will be a significant driver in Q2 as 2019 was a below-average weather quarter, with an uplift of 31 cents. In addition, we see 14 cents uplift from weather in 2020 as service territory CDDs were meaningfully above normal (14% above normal). We see COVID-19-related impacts on EPS of -15 cents, which is in-line with company provided disclosures during Q2. While PNW realized significant Q1 savings in O&M – near levels suggested by its full year 2020 guidance – we assume an additional one cent of savings in the quarter as mgmt. seeks additional offsets to drag resulting from lost sales. Finally, we see two cents of drag related to pension/OPEB given the six cent gains reported in Q1 relative to full-year company guidance.

- **Unknowns:** Weather and COVID-19 sales fluctuations are the two key wildcards in Q2, with both playing meaningful and opposite roles. Unlike Q1 where both weather and COVID-19 provided a drag on utility earnings, we see the two factors as largely offsetting in Q2. Our 14 cent weather uplift estimate is based on CDDs 14% above normal as reported by PNW, compared with 27% below normal in 2019. Our COVID-19 impact of 15 cents is based on an earlier intra quarter update by the company which disclosed an EPS impact of -$0.14/sh for the period of Mar 13 – May 26, and the expectation that drag from lost sales *abated slightly during June* given the state's reopening schedule, though we acknowledge some uncertainty here given: 1) relative weighting of warmer-month earnings, and 2) uptick in COVID-19 cases and resulting impacts on business and consumer behavior.

Table 39: PNW Q2 earnings walk

PNW 2Q20E Earnings Walk	EPS
2Q19 Adjusted EPS	$1.28
Weather return to normal	$0.31
Weather effect vs norm	$0.14
COVID-19 sales impact	($0.15)
Gross margin	$0.02
O&M	$0.01
D&A	($0.04)
Interest Expense	($0.01)
TEAM	$0.01
Other Opex - pension and OPEB	($0.02)
Dilution	($0.00)

Table 39: PNW Q2 earnings walk

PNW 2Q20E Earnings Walk	EPS
2Q20E Adjusted EPS	$1.55
2Q20E Consensus	$1.34
2020E Adjusted EPS	$4.80
2020E Consensus	$4.83
2020 Guidance	$4.75-4.95
2Q19 Shares Outstanding	113
2Q20 Shares Outstanding	113

Source: BofA Global Research estimates, Bloomberg

COVID-19 disclosures trending in the *right direction*

We estimate a 15 cent impact from COVID-19-related sales disruptions in Q2. PNW's early June update reported a 14 cent EPS drag from Mar 13 to May 26, which we assume is heavily weighted toward April-May when the full impact of state closures took effect. With sales impacts abating per the most recent disclosures which cover the period running through mid-June, we expect that the weather-normalized impact on sales in the month of June was not as intense as in the prior periods reported. Below we include the weather-normalized sales trends by customer class for several periods as reported by the company as well as trailing-period EPS impacts. While most of the figures below are reported by PNW in its interim updates, the $0.15/sh EPS drag for Q2 in the rightmost column is our estimate based on prior-reported figures.

Table 40: PNW COVID-19 sales and EPS impact

			Mar 13 - Apr 30		May 1 - May 26		May 13 - June 16	
Sensitivities	Sales	Annual EPS Impact	Sales	EPS impact 3/13 - 4/30	Sales	EPS Impact 3/13 - 5/26	Sales	EPS Impact Q2 (BofA estimate)
Residential	1%	$0.09	7%		4%		4%	
Commercial	1%	$0.05	-14%		-8%		-4%	
Industrial	1%	$0.01	-14%		-8%		-4%	
Total		$0.16-0.20	-7%	($0.10)	-4%	($0.14)	0%	($0.15)

Source: BofA Global Research estimates, company reports

Catching up with mgmt. on key topics

Below we review the key issues surrounding PNW after catching up with its management team on our recent fireside chat. We saw this as an opportune time to discuss the company's broader strategic vision and strategy for improving regulatory relationships. A recap of key topics follows.

- **Don't expect a settlement of the APS rate case.** Mgmt. sees little pathway to a settlement of the current APS rate case given the procedural and election schedules coming up in the second half of the year. Upcoming milestones in the rate case include filing of staff/intervener testimony on Aug 3 and the beginning of the Hearing on Sep 30. At this point in the calendar, PNW mgmt. expects that *even if a settlement agreement were reached with key counterparties, procedurally it would need to be approved by the next commission which will be seated in 2021*. Recall that 3 of 5 commissioner seats are up for election in Nov, with a minimum of 2 guaranteed to be replaced as Chair Bob Burns is termed out and Boyd Dunn is barred from running after forging signatures. Given these dynamics, mgmt. indicated the difficulty in reaching general consensus on key issues including revenue requirement, ROE, and equity layer with stakeholders and then seeking subsequent approval of a settlement agreement from a commission with 40% new members in 2021. Despite some earlier indications that a settlement may be possible (in order to give the current ACC an opportunity to decide APS' rates), all indications now point to a fully litigated outcome.

Table 41: APS case schedule

Event / Item Due	Original	Updated
Staff & Intervenor Testimony w/o Rate Schedules	5/20/2020	8/3/2020
Staff & Intervenor Testimony w/ Rate Schedules	5/27/2020	8/10/2020
APS Rebuttal Testimony	6/18/2020	9/1/2020
Prehearing Conference	7/13/2020	9/26/2020
Hearing Begins	7/17/2020	9/30/2020
Hearing Ends (30 day)	8/31/2020	11/11/2020
Transcripts Filed	9/11/2020	tbd
Briefs Due w/ Final Schedules	9/16/2020	tbd
Response Briefs Due	9/25/2020	tbd
Recommended Opinion and Order	11/25/2020	tbd
Exception Period Ends	12/16/2020	tbd
Open Meeting	12/17/2020	tbd
Deadline for Final Decision (AZ rule)	2/21/2021	tbd

Source: ACC docket #19-0236

Two other utilities (FTS and SWX) currently have rate cases pending before the ACC that are further advanced. FTS expects a fully litigated resolution to its case *prior to ACC turnover*, leaving APS in the unique position of having its case process straddle two ACC benches. *We perceive the protracted processes with these to suggest a case potentially delayed well into '21 with a new ACC composition.*

- **Pivot to clean generation is ongoing, expect mix of PPA and owned buildout.** Mgmt. expects to continue its pivot to a greater share of clean generation, as outlined in its decarbonization plan published earlier this year and recently-updated IRP filing. With 40% of its announced '21-22 capex plan allocated to clean generation, PNW is moving forward with a combination of owned and PPA renewable generation projects, and while the company intends to move forward with an ambitious Energy Storage buildout (750 MW through 2024 per the IRP), plans are currently on hold pending the outcome of the ongoing McMicken investigation. The company currently has two RFPs out for renewable generation including 150 MW of APS-owned solar and 250 MW of wind that may be owned or under a PPA structure. Critically, mgmt. sees future renewable solicitations as considering both owned and PPA structures given requirements to secure the most economic forms of supply. One potential form of additional PPA generation that was highlighted is a bolt-on addition to an existing renewable generation asset that is already contracted with APS, owing to the existence of already-built infrastructure that would reduce total costs to ratepayers.

- **Ratemaking and customer education are priorities – *but how to fix?*** *We see this as among the stickiest issues management has yet to resolve with its stakeholders.* Mgmt. highlighted its continuing efforts to rebuild relationships with regulators, as evidenced by frequent appearances at ACC open meetings to participate in direct dialogue with commissioners and the public – while efforts have yet to bear tangible outcomes, mgmt. indicated its intention to maintain the dialogue with stakeholders on the numerous issues in front of the ACC. We note the rate design question discussed in detail at a recent open meeting remains unanswered: given the requirement of the previous case settlement to encourage customers to opt-in to the "most economical plan", the company reported that a meaningful percentage of customers did not elect to do so, citing difficulty in getting customer engagement. Regarding future rate design, APS has proposed a flat bill option where the utility manages customers' thermostat settings though this proposal is opposed by some interveners for failing to send a price signal to customers.

- **No equity in '20, $300-400m coming *before* next case filing.** PNW does not expect to issue block equity until it is contemplating its next rate case filing. Company mgmt. has previously flagged some flexibility around APS' equity layer (rate case request of 54.7% has historically not been a negotiated term) with an intention to true-up prior to its next filing. Consistent with prior statements, mgmt. does not expect to issue equity in order to preserve its credit rating. Our base case expectation is for a rate case filing in 2022, and we see an issuance of $350m, in line with the midpoint of mgmt. expectations, and a concurrent equity injection by PNW to APS in the same year. Additionally, while we forecast PNW's consolidated debt metrics to remain above the Moody's downgrade threshold through '22, we forecast the ratio dropping to ~18% by 2025 – consistent with mgmt. statements of some latitude on this front (not managing to a credit ratio).

Table 42: APS ROE and Equity forecast

Earned ROE - GAAP calculation	2018A	2019E	2020E	2021E	2022E	2023E	2024E
Average Equity Method - GAAP	10.45%	9.80%	9.51%	9.58%	9.19%	9.17%	9.65%
APS Earned ROE - GAAP	0.52%	9.80%	9.51%	9.58%	9.19%	9.17%	9.65%
Authorized Equity Layer	*55.80%*	*55.80%*	*55.80%*	*54.70%*			
Book equity (GAAP) %	*54.69%*	*53.13%*	*52.02%*	*52.07%*	*54.73%*	*53.19%*	*52.26%*
Equity Injection			5	260	625	10	10

Source: BofA Global Research estimates, company report

- **Renewable buildout is the path to greater cooperation with ACC.** PNW intends to shift its generation mix to 65% clean energy by 2030 (note this includes Palo Verde) by continuing its buildout of owned wind, solar, and storage and retiring Cholla in 2025. As part of its 2020-24 plan, the company intends to add 962 MW of renewable energy and 750 MW of storage, with the balance of the 2,900 MW in the plan consisting of Demand Side Mgmt, Demand Response, and Distributed Generation. *We look for whether management will be able to recover these in a rider treatment akin to its earlier AZ Sun program through the course of the pending rate case; we perceive this as increasingly key to rate case timeline and implicitly capex clarity too but don't perceive a need for pre-approval/CPCN for any of its renewables regardless. Meanwhile we anticipate a large chunk of its future renewable procurement to still be done on a PPA (rather than ownership) basis.*

- **Coal plans still key to de-risk in the rate case.** Given the uncertain treatment of the Four Corners scrubbers as part of the current rate case, mgmt. highlighted that previous dockets have laid out an evidentiary record for the need to invest in scrubbing technology and support for recovery in rates. While the rate case ask stands out for being one of the few among our coverage that actively seeks to *increase coal rate base,* PNW mgmt. stresses that Four Corners remains a key part of the company's generation mix today and expects to utilize the plant until its scheduled retirement in 2031 (itself pushed up from 2038 previously). We further note that the plant is a key employer in the Navajo Nation territory, making a potential early retirement thorny from a regulatory and political angle. PNW highlights that it sees its clean gen pivot as a key part of its strategy for enhanced cooperation with stakeholders and the ACC, noting significant support for renewables across the state.

Updated estimates

We update our PNW estimates as per below, as we increase our 2020 forecast from the low end of 2020 guidance to $4.80/sh, driven principally by the above-normal weather contribution in Q2. Our estimates are now three cents below Street consensus which itself is two cents below the midpoint of mgmt.'s guidance range. While PNW gave a relatively soft reaffirmation of 2020 guidance on its Q1 update, we see likelihood of a more confident tone on the upcoming call as a tailwind from warm Q2 weather and abating COVID-19 sales impacts has improved the near-term outlook of late, though we flag Q3 as critically important for the company's full year prospects given the importance of the peak cooling season. Looking ahead, we see an EPS CAGR of 3-4% through 2023 based on company-provided capex disclosures and assumptions around rate case filing cadence and impacts on earned ROEs at APS. Upside to the current forecast is tempered somewhat by PNW mgmt. comments that the company intends to pursue PPA as well as utility-owned solutions for its future renewable procurement.

Capex updates

We perceive less confidence on long-dated further acceleration of current clean energy capex beyond '22, but rather more sustainable levels of investment. Meanwhile, we are critically focused on the 2Q call around the composition of just *what is reflected in its clean energy outlook.* As a reminder, the company has yet to clarify *what* specific projects are contemplated within its '21 guidance as far as clean energy investments go. We anticipate some level of details and/or risk of delay if not – but bias towards the former.

Table 43: PNW updated estimates

PNW EPS Estimates	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
EPS From Continuing Operations	$4.55	$4.71	$4.95	$4.98	$5.30	$5.38	$5.76	$6.31	$6.34
Net Income (Loss) Attributable to Noncontrolling Interests	$0.17	$0.17	$0.17	$0.17	$0.17	$0.17	$0.17	$0.17	$0.17
Income From Discontinued Operations	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Accounting Changes/Non Operating Adjustments	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Linked to model - EPS	$4.37	$4.54	$4.77	$4.80	$5.12	$5.21	$5.60	$6.14	$6.18
APS - EPS From Continuing Operations	$4.66	$5.24	$5.19	$5.22	$5.55	$5.70	$6.13	$6.69	$6.72
Parent - EPS From Continuing Operations	($0.11)	($0.53)	($0.24)	($0.24)	($0.26)	($0.33)	($0.37)	($0.38)	($0.38)
Net Income (Loss) Attributable to Noncontrolling Interests	($0.17)	($0.17)	($0.17)	($0.17)	($0.17)	($0.17)	($0.17)	($0.17)	($0.17)
EPS From Cont Ops Attributable to Common Shareholders	$4.37	$4.54	$4.77	$4.80	$5.12	$5.21	$5.60	$6.14	$6.18
Previous Estimates	*$4.37*	*$4.54*	*$4.77*	*$4.75*	*$5.12*	*$5.21*	*$5.60*	*$6.14*	*$6.18*
Guidance	4.15-4.30	4.35-4.55	4.75-4.95	4.75-4.95					
Consensus				$4.83	$5.07	$5.29			
Delta vs Consensus				($0.02)	$0.05	($0.07)			
EPS CAGR off 2019A				0.7%	3.6%	3.0%	4.1%	5.2%	4.4%
Street CAGR				3.1%	3.8%	3.9%			

Source: BofA Global Research estimates, Bloomberg

Valuation: PO to $78

We update our PO to $78 based on marking-to-market the electric utility peer multiple to 16.6x, from 15.6x previously. We continue to apply a -2.5x discount to PNW's consolidated '22 earnings, reflecting the unique set of regulatory risks facing the company in its sole AZ jurisdiction, notably timing of the current rate case whereby a settlement increasingly looks as if it is not an option and a *new* slate of commissioners will decide the pending proceeding – a decidedly uncertain prospect given Nov elections. Reiterate our Neutral rating as we see only modest return potential to shares at current levels.

Table 44: PNW updated SOTP

Price Objective $78	
PNW Valuation: P/E Based on 2022E EPS	
Price Objective	
2022 EPS	$5.21
Group Peer Multiple - Electric	16.6x
Group EPS '18-'22 CAGR - Electric	5.00%
P/E Multiple - Utility Average	17.4x
Premium	-2.5x
Price Objective	$78
2020 Dividend	$3.16
Dividend Yield	4.0%
Total Return (%)	1.6%

Source: BofA Global Research estimates, Bloomberg

PPL Corporation (PPL)

We remain Neutral rated on shares of PPL into the quarter. While shares have meaningfully underperformed this year, FX remains volatile with current forwards remaining at the low end of mgmt.'s assumptions (already lowered earlier this year) and we critically watch load impacts after mgmt. elected to keep guidance unchanged last quarter. While the UK is decoupled, volumes are only trued up on a two year basis and mitigating impacts in the jurisdiction could be critical to keeping guide intact. Meanwhile, we await any developments around a formal decision for a rate case in KY - which we continue to see as unlikely against the protracted pandemic and latest ROE backdrop – along with the RIIO-ED2 consultation from Ofgem expected later this month: LT ROEs in the UK remain a lingering uncertainty after latest pressure suggested by T&G drafts. Bottom line, we ultimately see risk/reward as balanced at the current valuation.

PPL 2Q20 Earnings Walk

We forecast 2Q20 adjusted EPS of $0.54 compared to $0.58 in 2Q19 & $0.56 consensus.

- **Key Drivers:** We expect COVID challenges in the UK and dilution to weigh on the quarter and offset currency tailwinds and O&M savings.

Table 45: PPL 2Q20 Walk

PPL 2Q20 Earnings Walk	EPS
2Q19 EPS	$0.58
WPD	
Rates & Loads	($0.05)
Pension Headwinds	($0.01)
FX Tailwinds	$0.05
Kentucky	
Reversal of Tax Benefit in 2Q19	($0.02)
New Base rates & Weather Against COVID Challenges	$0.00
PPL PA	
Growth & Covid Challenges	$0.01
Corp & Other	
Dilution	($0.03)
Depreciation	($0.02)
Interest	($0.01)
O&M Savings	$0.04
2Q20 BofAe Adjusted EPS	$0.54
2Q20 Consensus	$0.56
BofAe 2020E EPS	$2.45
2020 Consensus	$2.43
2020 Guidance	$2.40-2.60

Source: BofA Global Research, Bloomberg

Contemplating COVID Implications

After electing to keep guidance unchanged last quarter, we critically watch developments on load. Recall the company noted $0.03-$0.04 monthly impact in April primarily from lower electric sales in the UK and KY (2/3rds from the UK). Full disclosures noted specific early load observations and sensitivities in April: UK - +1-3% resi & (20-25%) C&I with a 1% change translating to a penny of EPS for each; PA - +6-8% resi & (15-20%) C&I with a 1% change translating to $0.005 for resi and no impact for C&I; KY - +5-7% resi and (15-20%). Given the extents of unknowns and a seemingly lack of conviction around full year guilde with 1Q results, we wouldn't be surprised for an expectation reset – albeit our estimates remain at the lower end but within their current guide.

FX Outlook: Forwards Remain Near Low End of Guide

After lowering embedded assumptions with an earlier update, FX rates and forecasts remain at the low end of the range. While the company is 86% hedged for the remainder of 2020 at an average rate of $1.55, it is only 8% hedged in 2021 at $1.32 and completely exposed in outer years. On an open basis, every 1c in the exchange rate equates to about $0.01/sh of EPS for the company.

OFGEM Prospects: Contemplating Future UK Returns

Earlier this month, Offgem released its RIIO-2 draft proposals on price controls for the '21-26 period for transmission and gas distribution. The draft reflected a reduction of the base equity returns to 3.95% (post tax real, CPIH basis) for GT & GD, and 3.7% for ET vs. a previous 4.3% indication. The difference would appear principally driven by a change in lower interest rates reflected (and could yet change into the final decision).

While the draft proposals on Totex are 20-40% lower than business plans, the regulator indicated allowances to be considered on project by project basis instead of upfront considerations, and actual allowances could potentially be much higher than business plans. Ofgem's current base return proposal still includes a contentious -25bps adjustment justified by "information asymmetry" compared to -50bps adjustment previously included.

Shares of PPL underperformed on the news as we viewed the proposals more stringent than anticipated and as investors try to get a read-through to future returns for ED – a more protracted process that will shake out over the next couple of years. That said, the ED2 specific methodology expected later this month should provide some color around ED specific thoughts. We ultimately expect nuances between ED2 and the gas/transmission framework given different risk profiles. However, we see a desire from Ofgem to maintain incentives and give the best performing companies an ability to overearn, particularly as distribution networks will be a key enabler of the net-zero carbon target. Any developments out of the COVID crisis will also be critical in terms of nuances around their thought process for UK utilities longer term. *Our model assumes a base equity return of 3.95%, with up to 300bps of incentives.*

EPS Estimates

The table below reflects our latest EPS estimates after reflecting the latest currency forwards and on-going developments, and we see limited growth ahead given pension headwinds and questions around longer term UK returns, particularly without meaningful FX improvement.

Table 46: PPL EPS Estimates

PPL EPS Estimates	2020E	2021E	2022E	2023E
Regulated Utilities				
International Regulated	$1.39	$1.30	$1.29	$1.15
Pennsylvania Regulated	$0.62	$0.65	$0.68	$0.71
Kentucky Regulated	$0.55	$0.62	$0.68	$0.71
Domestic Utilities	*$1.18*	*$1.27*	*$1.36*	*$1.42*
Parent/Other	($0.13)	($0.12)	($0.12)	($0.10)
Consolidated EPS	$2.44	$2.44	$2.53	$2.47
Prior Estimates	*$2.45*	*$2.45*	*$2.52*	*$2.48*
Consolidated Growth CAGR off 2018 ($2.30 midpoint)	2.99%	2.04%	2.40%	1.41%
Consensus	$2.43	$2.45	$2.59	$2.76
Guidance	$2.40-2.60	$2.40-2.60		
DPS	1.66	1.68	1.69	1.71
DPS Growth (%)	*0.61%*	*1.00%*	*1.00%*	*1.00%*
DPS Payout	68.05%	68.61%	66.96%	69.33%
FFO (CFO pre-W/C) / Total Debt	15.02%	15.17%	15.51%	15.45%

Source: BofA Global Research, Bloomberg

Valuation: Risk/Reward Remains Balanced

The table below reflects our latest valuation based on a SOTP approach. On our latest estimates, we apply the current peer multiple of 17.1x (vs. 16.5x previously) for both PPL Electric and PPL Kentucky. Meanwhile, we ascribe a 25% premium to RAV for the UK biz.

Our PO ultimately remains unchanged at $27, and we continue to see risk/reward as balanced: Maintain Neutral.

Table 47: PPL SOTP

PPL Sum-of-the-Parts								Equity Value	
	EPS	Lower	Peer	Prem/ Disc.	Base	High	Low	Base	High
RAV Approach	C2021 RAV								
WPD RAV	11,058	0.8x	1.0x	0.25x	1.3x	1.8x	$8,293	$13,822	$19,351
Less: WPD leverage (80% Gearing)							($8,846)	($8,846)	($8,846)
							($553)	$4,976	$10,505
UK Equity Value							($553)	$4,976	$10,505
Implied Valuation / Share							*-0.71*	*6.41*	*13.54*
Domestic: Regulated Utilities			2022 P/E Multiples						
Group Peer Multiple - Electric			17.1x						
Group EPS '18-'22 CAGR - Electric			5.00%						
	-	Base Multiple	18.0x						
PPL Electric Utilities	$0.68	17.0x		0.0x	18.0x	19.0x	$8,904	$9,429	$9,954
PPL Kentucky (KU/LG&A)	$0.68	17.0x		0.0x	18.0x	19.0x	$8,941	$9,469	$9,996
Parent/Int Expense	($0.12)	17.0x		0.0x	18.0x	19.0x	($1,526)	($1,616)	($1,706)
			50% Weighting						
PPL Cap Funding Debt	4,530		2,265				-2,265	-2,265	-2,265
Parent Interest Expense (Tax effected @ 21%)	142		71				1,204	1,276	1,347
--> Add back 50% of EPS drag above							-1,061	-989	-918
PPL Equity Value ($/Sh) Unrounded							$18.95	$27.41	$35.87
Shares Outstanding	2022 EPS						776	776	776
Total PPL Equity Value Per Share	$2.53						$19.00	$27.00	$36.00
Implied P/E							7.5x	10.7x	14.2x
Total Return Calculation									
Current Stock Price								$25.85	
Price Objective								$27.00	
Upside/Downside (%)								4.45%	
Dividend								$1.66	
Dividend Yield								6.42%	
Total Return								10.87%	

Source: BofA Global Research, Bloomberg

WEC Energy (WEC)

We expect WEC to hit the high end of its increased Q2 EPS guidance range of $0.67-0.69 for the quarter. WEC stood out as among the stronger 2020 guidance reaffirmations following Q1 reporting, with the company flagging ongoing O&M reductions above its original 2-3% forecast as an offset to an expected $70-80m gross margin drag due to sales lost resulting from Covid. The company provided an intra-quarter update where it flagged sales trending above its revised forecast, but it remains unclear whether the improving sales is due to faster-than-expected resumption of economic activity or to a higher incidence of Cooling Degree Days (CDDs) driven by unseasonably warm weather. Nonetheless, we perceive incrementally less pressure on mgmt. going into the Q2 print following the latest reaffirmation, and see the high end of 2020 guidance as well within reach.

WEC 2Q20 Earnings Walk

We forecast 2Q20 adjusted EPS of $0.69 compared to 2Q19 results of $0.74, consensus estimates of $0.67, and guidance of $0.67-0.69.

- **Key Drivers:** Weather is expected to be a key positive driver in Q2 with +3 cents from normalizing for below-normal temps in 2019 and an additional 5 cent uplift from warmer weather in 2019. While WEC has stated that Q2 sales have developed ahead of prior forecasts, we note it is unclear whether this is due to a faster reopening or to weather, accordingly we estimate an 8 cent quarterly drag from Covid lost sales based on company-provided sensitivities. American Transmission Co's (ATC) 3 cent uplift is driven by the Federal Energy Regulatory Commission's (FERC) Midcontinent Independent System Operator (MISO) order of 10.02% authorized ROE, recognizing benefits to 2015. Finally, in 2020 WEC realized the full benefits of its fuel cost recovery rider in Q1, resulting in a 2 cent drag in Q2 as compared to the prior year.

- **Unknowns**: Weather and Covid-linked shutdowns are both expected to have a disproportional impact on sales in Q2 and estimating the precise impact of both line items is difficult –warm weather along with a higher incidence of CDDs has coincided with the most acute period of lockdowns, largely mitigating the loss on our estimates. WEC maintains a Rabbi Trust to offset future legacy compensation obligations – while the trust tends to create Other Income in periods of strong market performance (as seen during Q2), the positive contribution tends to be offset in the O&M line, accordingly we do not estimate it in our walk below.

Table 48: WEC Q2 earnings walk

WEC 2Q20 Earnings Walk	EPS
2Q19 Adjusted EPS	$0.74
Weather - 2Q19 normalized	$0.03
Weather - 2Q20	$0.05
Covid impact	
Electric	($0.07)
Gas	($0.01)
Fuel cost recovery - all realized in Q1	($0.02)
Interest Expense - re-financing	($0.03)
D&A	($0.05)
O&M	$0.01
Storm expense	$0.00
ATC	$0.03
Infrastructure	$0.01
Dilution	($0.00)
Other income	$0.00
2Q20 Adjusted EPS	$0.69
2Q20 Consensus	$0.67
2Q20 Guidance	$0.67-0.69
2020 BofAe	$3.75
2020 Consensus	$3.73

Table 48: WEC Q2 earnings walk

WEC 2Q20 Earnings Walk	EPS
2020 Guidance	3.71-3.75
Share Count	
2Q19	317
2Q20	317

Source: BofA Global Research estimates, company report

Covid update and outlook

WEC last provided an update on Q2 sales expectations on its Q1 call, with the forecast below for the quarter and full-year results. An inter-quarter update from WEC disclosed that weather-normalized sales are trending above the current quarter outlook, which the full-year assumptions remain unchanged, following the lifting of state lockdown orders and resumption of business and commercial activity in a phased approach. Note that relative to 2019 normalized sales, mgmt.'s forecast calls for an annualized drop in total retail sales ex iron ore of 4.6%, with a modest 1.4% increase in residential sales offset by an 11.9% drop in C&I. While the WI Public Service Commission (WPSC) was one of the first commissions in the US to issue an order on deferral of Covid-related extraordinary items, we note the order includes bad debt and additional direct costs related to the pandemic and does not include lost revenues – we look to the Q2 update on cost cutting (where mgmt. flagged confidence) as well as weather contribution from higher than normal cooling days to provide the offset to lost revenues and allow mgmt. to hit the high end of its guidance range.

Table 49: WEC reported and forecast 2020 sales

	2020 Original	Q1 Actual	Q2 Forecast	2020 Revised
Residential	-0.2%	-4.6%	4.0%	1.4%
Small C&I	-0.3%	-2.6%	-8.0%	-4.6%
Large C&I	-1.0%	-3.1%	-18.0%	-10.5%
Total C&I	-1.2%	-2.5%		-11.9%
Total Retail	-0.6%	-3.2%		-5.3%
Total Retail ex iron ore	-0.5%	-3.4%		-4.6%

Source: Company report

Mgmt.'s Q1 announcement of an acceleration in cost cuts was predicated on offsetting an anticipated $70-80m in gross margin drag stemming from Covid. With additional Q2 data points now suggesting a meaningful weather tailwind, a key question remains whether mgmt. will continue to pursue aggressive cost reductions as originally planned, or whether an improving margin outlook will make less stringent cuts palatable. While some O&M reductions are a natural extension of telework and a reduced ability to travel, we perceive latitude to avoid certain discretionary cuts driven by better-than-expected contribution from weather during the quarter. Below we include our original estimate of O&M reductions aimed at offsetting the $70-80m of gross margin drag originally forecast from Covid-related shutdowns.

Table 50: Potential additional O&M savings; good historical success, but *where to now?*

	2016	2017	2018	2019	2020
Day to Day O&M	1,342	1,281	1,234	1,143	
y/y % chg		*-4.5%*	*-3.7%*	*-7.4%*	*-2-3%*
Addt'l O&M Cuts					
Pre-tax					75
Post-tax					63
PF Day-to-day O&M					1,052
y/y % chg					*-8.0%*

Source: BofA Global Research, company report

Infrastructure update: modest delay to Badger Hollow II

Though not particularly surprising following the announced delay of the Badger Hollow I solar facility, Badger Hollow II announced a project delay with an updated in-service date of year-end 2022 vs. year-end 2021 previously. WEC's contribution of $130m to the project is modest relative to its projected $1.8B spend during the forecast period. Given the delays are linked to Covid and staging of work crews in rural WI, we do not see the delays as indicative of further slippage or lack of execution on future projects.

Reflecting an NPV valuation across the infra segment

We update our valuation methodology for WEC. While we had previously continued to use a P/E based approach for valuing WEC's planned investment other than announced projects, we now update our approach to reflect this across the segment. We see a DCF approach as increasingly relevant given the reflection of asset lives of wind projects as well as varying risk profiles by asset type.

Table 51: Allocated and unallocated infra investment – NPV approach

Project Name	Investment	Unlevered NPV	Unlevered IRR	Capacity	In Service
Upstream Wind	307	115	8.8%	180	Jan-19
Bishop Hill III Wind	166	72	8.9%	119	May-18
Coyote Ridge Wind	145	63	8.7%	78	YE 2019
Thunderhead Wind	381	174	8.9%	270	YE 2020
Blooming Grove	389	192	8.9%	225	YE 2020
Total	1,388	616		871	
Shares		317			
Equity value per share		1.94			

Summary of unallocated CAPEX

Project Name	Investment	Unlevered NPV	Unlevered IRR	Capacity	In Service
2021 Capex	100	45	8.8%	67	YE 2021
2022 Capex	315	140	8.8%	210	YE 2022
2023 Capex	315	139	8.8%	210	YE 2023
2024 Capex	308	135	8.8%	205	YE 2024
Total	1,038	460		692	
Shares		317			
Equity value per share		1.45			

Source: BofA Global Research estimates,

Estimates: Moving to high end of '20 guidance

We update our consolidated WEC ests to reflect the high end of mgmt.'s $3.71-3.75/sh 2020 guidance range. Given the degree of confidence reflected by WEC mgmt. in the company's ability to meet its guidance following its Q1 reporting – indeed before the Q2 weather impact was fully known and before raising its quarterly guidance range – we feel comfortable at the high end of the range, even given the backdrop of continuing pressure on sales from Covid. We also tweak our ATC numbers slightly to reflect the updated FERC ROE of 10.02% plus 50 bps adder, though this has a modest impact on our numbers. Bottom line: we continue to see earnings growth near the high end of mgmt.'s 5-7% long-term guidance range through the forecast period.

Table 52: WEC updated SOTP

WEC EPS Estimates	2018A	2019A	2020E	2021E	2022E	2023E	2024E
WI Electric	$1.13	$1.15	$1.25	$1.26	$1.30	$1.34	$1.37
WPS	$0.55	$0.59	$0.56	$0.59	$0.64	$0.68	$0.71
WI Gas	$0.24	$0.26	$0.39	$0.48	$0.58	$0.67	$0.75
Peoples Gas	$0.42	$0.50	$0.44	$0.49	$0.55	$0.60	$0.65
North Shore Gas	$0.05	$0.05	$0.05	$0.05	$0.06	$0.06	$0.06
ATC	$0.36	$0.39	$0.42	$0.44	$0.47	$0.50	$0.51
We Power (PTF) + Non utility infrastructure	$0.70	$0.76	$0.77	$0.89	$0.91	$0.97	$1.03
MERC/MGU	$0.14	$0.15	$0.13	$0.14	$0.15	$0.16	$0.16
Parent & Int Expense	(0.23)	(0.24)	(0.26)	(0.38)	(0.41)	(0.43)	(0.43)
BofA Estimate	$3.34	$3.60	$3.75	$3.98	$4.25	$4.52	$4.81
Company Guidance			$3.71 -$3.75				
Prior Estimates			*$3.71*	*$3.96*	*$4.24*	*$4.51*	*$4.78*
BofA CAGR (off 2019 estimate of $3.50)			*7.24%*	*6.59%*	*6.70%*	*6.63%*	*6.56%*
Consensus			$3.73	$3.98	$4.26	$4.54	
Consensus CAGR			*6.5%*	*6.6%*	*6.7%*	*6.7%*	
Mgmt. Guidance 5-7% off $3.50 in 2019							
Low		$3.48	$3.71	$3.86	$4.05	$4.25	$4.47
Mid		$3.50	$3.73	$3.93	$4.17	$4.42	$4.69
High		$3.52	$3.75	$4.01	$4.29	$4.59	$4.91

Source: BofA Global Research, Bloomberg

Valuation

We update our valuation to reflect mark to market of electric and gas peer group multiples to 16.7x and 15.7x respectively. We additionally tweak our valuation premium applied to WI utilities to 4.0x to reflect the strong regulatory backdrop and long-term opportunity to invest in more rate base renewables. We also shift or Energy Infrastructure methodology to applying an NPV valuation to both announced as well as growth projects – recall that we had previously updated our valuation to reflect an NPV value for announced renewable projects. While execution by the mgmt remains strong and data points on sales remain constructive, we believe valuation is expensive with WEC shares trading at an implied P/E of 19.5x vs. electric/gas peer P/E of 17.5x/16.5x, respectively, reflecting 6-7% growth vs. mgmt.'s 5-7% guidance range even after the recent pullback that narrowed the premium between WEC and peers. We reiterate Underperform.

Table 53: WEC updated SOTP: raising our relative premium on WI to +4x and Bluewater to +2x; keeping renewables on DCF & IL at +1x. PTF also at +1x too.

Regulated Utilities		2022 EPS	2022 Net Income	P/E Multiple						Equity Value		
				Low		Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Electric				-		16.7x	-	-	- -	-	-	-
Group EPS '18-'22 CAGR - Electric				-		5.00%	-	-	- -	-	-	-
				-		-	-	-	- -	-	-	-
Group Peer Multiple - Gas				-		15.7x	-	-	- -	-	-	-
Group EPS '18-'22 CAGR - Gas				-		5.10%	-	-	- -	-	-	-
				-		-	-	-	- -	-	-	-
Applied Multiple				-	Electric	17.5x	-	-	- -	-	-	-
				-	Gas	16.5x	-	-	- -	-	-	-
												-
WI Electric		$1.30	413	20.5x			4.0x	21.5x	22.5x	$8,487	$8,901	$9,314
WPS		$0.64	202	20.5x			4.0x	21.5x	22.5x	$4,152	$4,354	$4,556
WI Gas		$0.58	184	19.5x			4.0x	20.5x	21.5x	$3,582	$3,765	$3,949
Peoples Gas		$0.55	173	16.5x			1.0x	17.5x	18.5x	$2,860	$3,034	$3,207
North Shore Gas		$0.06	18	16.5x			1.0x	17.5x	18.5x	$291	$308	$326
ATC		$0.47	149	18.5x			2.0x	19.5x	20.5x	$2,768	$2,917	$3,066
We Power (PTF)		$0.61	193	17.5x			1.0x	18.5x	19.5x	$3,386	$3,579	$3,772
MERC/MGU		$0.15	48	16.5x			1.0x	17.5x	18.5x	$790	$838	$886
Parent & Int Expense		-$0.41	(129)	17.5x			1.0x	18.5x	19.5x	($2,268)	($2,397)	($2,527)
Total Implied Utilities		$4.25	1,251					20.2x		$24,048	$25,299	$26,550
Non Utility Energy Infrastructure										$1,292	$1,304	$1,315
Wind projects - announced	NPV value									$616	$616	$616
Wind projects - growth	NPV value									$460	$460	$460
Bluewater		$0.04	12	18.5x			2.0x	19.5x	20.5x	$217	$229	$240
Implied Valuation Multiple							19.5x				$4.12	
HoldCo Debt Adjustment												
Add Back: 50% of Interest Expense		$0.13	40	19.2x				20.2x	21.2x	$774	$815	$855
Subtract: HoldCo Debt (Net out 50%)		2,550	(1,275)							($1,275)	($1,275)	($1,275)
Total Equity Value										$24,839	$26,143	$27,446
Valuation										$78.00	$83.00	$87.00
Price Objective											$83.00	
Upside/Downside											-5.8%	
NTM Div Yield											3.0%	
Total Return											-2.8%	

Source: BofA Global Research, Bloomberg

Xcel Energy (XEL)

Below we find 2Q20 EPS of $0.43/sh, versus a $0.48/sh Consensus and a 2Q19 estimate of $0.46/sh.

- **Drivers**: We see Covid impacting sales about -5c, associated with a 6% sales drop; note our view that 2Q was impacted less than initially anticipated, but we expect the 'base case' for Covid to remain roughly around the same (or maybe just shy of the 'up to 17c EPS impact') as we think more impact could come later this year (e.g. if there is another shut-down or delay of openings). We expect this is balanced by +3c of O&M savings; while XEL communicated a 4-5% decrease YoY in O&M, we expect these to be more back-end loaded.

- **Others**: Rate changes in Minnesota (+4c), Colorado (+2c), and one month of NM (+0c) are not to be ignored. AFUDC was adjusted to $25-35mn annually (+1c) and capital rider revenue continues to add +2c. Interest expense (-2c) is in line with annual $50-60mn guidance, increase in D&A expense (-4c) is back end loaded, and property tax (-1c) is in line with annual $35-45mn guidance.

- **Unkown:**: Weather's return to normal was -1.4c and we expect another -1c of mild weather this quarter (which could be a wild card).

Table 54: XEL EPS Walk 2Q20

Xcel Energy 2Q20 Earnings Walk	EPS
Ongoing EPS 2Q19	$0.46
Weather	
Return to normal (1.4c of adverse impact)	($0.01)
Current quarter	($0.01)
Rate Changes	
NSPM Minnesota Electric Interim sales true up & Nuke decommissioning ($122mn, Jan 2020)	$0.04
PSCo Colorado - Electric rates ($35mn, Feb 25 2020)	$0.02
SPS New Mexico - Electric rates ($31mn, 1 month in 2Q20)	$0.00
SPS Texas - Electric rates (requested $136mn, 3Q20)	$0.00
Capital rider revenue	$0.02
AFUDC	$0.01
Other	
Interest Expense increase	($0.02)
Increase in D&A expense	($0.04)
O&M (we assume 4-5% decrease, but more back-end loaded)	$0.03
Property taxes	($0.01)
COVID 2Q impact (up to -17c '20 impact in base case)	($0.05)
Bad debt (would be considered in O&M)	*$0.00*
Dilution (settled)	($0.00)
2Q20E Adjusted EPS	$0.43
2Q20E BofA Securities Estimate	0.43
2Q20 Consensus	0.48
2020 BofA Securities EPS	$2.78
2020 Consensus	2.77
2020 Guidance	2.73-2.83
Shares Outstanding 2Q19	516
Shares Outstanding 2Q20	525
Tax rate	25%

Source: BofA Global Research estimates, company report, Bloomberg

Adj capex to incl. 50% Minnesota stimulus

Adjusting incremental capex into our numbers: 50% probability weighting

Of the $3bn capex proposed with XEL's MN stimulus filing, roughly half is intended to accelerate capex already planned in later years of the 5-year outlook (e.g. distribution and natural gas spend). The other half is for newly proposed projects (e.g. wind repowering presumably under latest PTC extension, solar, and electric vehicle spend).

Capex opportunities likely include $1-1.4bn of wind repowering ('21-23), $650mn of solar ('23-25), and $100-150mn of EV infrastructure ('anytime' but we would expect '21-'25). It is unclear to us how the accelerated capex for already planned distribution and nat gas spend would re-arrange existing capex plans.

We provide details on how we include in our numbers below. We factor in a 50% probability weighting that the incremental capex is added in full, and we take an average of the assumed capex ranges per item. For example, wind repowering's $1-1.4bn capex opportunity averages to $1.2bn; with a 50% probability, we factor in $600mn of additional capex to the years '21-'23 – or $200mn each year in '21-'23. The same applies for solar ($108mn each year in '23-25) and EV infra ($12.5mn in '21-'25).

Bottom line, we see this as a net positive datapoint to shares and highlighting an emerging angle to capex. Moreover, we see the capex step-up as among the only such increases thus far in the sector; expect financing update discussion with 2Q as well pending success of filing. This critically drives cumulative gross EPS of ~$0.10 by 2025, or net of equity, ~$0.07 upside on our probability weighted basis. Upside to our ests below do not *directly* tie to this given other model refinements.

Table 55: Incremental capex factored into our Minnesota capex

Incremental capex associated with Minnesota stimulus (keeping the remaining 'accelerated' as is)						Prob. weight:	50%
Type	Details	2021	2022	2023	2024	2025	Total
Wind repowering	$1-1.4bn in '21-23	200	200	200			600
Solar	$650mn '23-'35			108	108	108	325
EV infrastructure	$100-150mn anytime	12.5	12.5	12.5	12.5	12.5	63
Total	$1.75-$2.20bn	213	213	321	121	121	988

Source: BofA Global Research estimates, company report

Below, we reflect how our capex numbers have been adjusted in our model. We leave existing capex as is (i.e. don't pull forward Minnesota capex associated with accelerated distribution and natural gas proposed spend) and we add in the incremental capex associated with wind renewables above.

Table 56: BofA modeled capex for XEL

Subsidiary	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
NSPM	1,855	1,205	1,017	1,150	1,417	2,025	1,793	1,883	2,121	1,966	1,966
SPS	600	513	560	1,021	844	1,025	530	700	750	800	800
PSCo	996	1,114	1,476	1,577	1,691	1,415	1,445	1,720	1,565	1,530	1,530
NSPW	252	204	219	227	212	250	320	345	350	425	425
Parent	(18)	220	48	(17)	61	(85)	(65)	10	10	10	10
Consolidated	3,683	3,256	3,319	3,957	4,225	4,630	4,023	4,658	8,726	4,731	10,368

Source: BofA Global Research estimates, company report

Recovery and commission procedures

We would anticipate the company looks to recover spend for wind repowering and solar incremental investments through its renewable rider, and spend for advanced grid through its transmission rider. Note the wind repowers would likely qualify for the 60% production tax credit (PTC) if equipment is safe-harbored this year in 2020. We expect the rest to fall under a sought after enhanced recovery mechanism that will be determined by the Commission. We also await developments on a wider effort to delay its rate case altogether and see the formal indication of such in this filing as a positive step.

More details on the capex positive: MN is first to stimulus program

As noted in our first take here, Xcel's Northern States Power Company Minnesota (MN) biz recently filed a proposal for $3bn accelerated and additional capex in the state. This will likely create new jobs in an effort to counter-balance 400,000 unemployment filings in MN from Covid and the economic shut-down. This is the first proposal of its kind nationally for a return to infrastructure 'stimulus' programs (akin to efforts in the 2008 GFC). Likely the first of several others – both in terms of peers following suit and XEL's other jurisdictions as well.

Fate of the docket: We see positively and giving rise to more

The filing seems likely to gain key support for two reasons. 1) It was made in response to the MN Public Utilities Commission (PUC) request from May to examine what utilities can do to spur jobs and economic development. 2) It will be in line with labor goals. We expect an update by later this year from the MN PUC as creating jobs amid a pandemic is a timely item, and we would also expect XEL to consider opportunities like this in other jurisdictions - particularly CO.

Next key datapoint: What happens with rate cases?

In its filing, the company expressed it would be open to staying out of a rate case in MN this year – in line with mgmt. commentary. Recall XEL was expected to file at the end of 2019 but was able to stay-out, meaning this would be the second stay-out. Whether this is possible will not be determined through this docket but rather was expressed by XEL as one way it could keep customer rates down. We expect to see discussion in the coming months of what XEL would need to file to pursue another stay-out. We would expect XEL to look similarly to CO as well – and that in both states it will expect to recover spend through existing trackers.

Estimates

We include our latest estimates below, highlighting capex changes made to the model as well as our assumption that 30% of this incremental capex (i.e. nearly $300mn) is funded with incremental equity. We include this additional equity need into our assumptions and find the EPS CAGR to be above midpoint of the 5-7% guide starting in '21 and beyond. Note that the our '20 estimates are the same as prior assumptions, given that while there was less Covid impact in 2Q than originally anticipated (just -5c we forecast associated with a 6% sales drop), there could be more impact on demand later this year given resurfacing concerns. XEL's base case includes 'up to 17c' of Covid impact for '20.

Table 57: XEL EPS Estimates

Subsidiary	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E
Northern States Power Minnesota (NSPM)	0.96	1.01	0.96	1.05	1.11	1.28	1.39	1.46	1.53
Southwestern Public Service (SPS)	0.30	0.30	0.42	0.51	0.59	0.60	0.63	0.65	0.67
Public Service Colorado (PSCo)	0.91	0.94	1.08	1.11	1.07	1.11	1.17	1.24	1.32
Northern States Power Wisconsin (NSPW)	0.14	0.16	0.19	0.15	0.16	0.18	0.20	0.21	0.23
Parent (Excl Mankato)	(0.10)	(0.12)	(0.18)	(0.17)	(0.16)	(0.16)	(0.18)	(0.20)	(0.21)
Consolidated	2.21	2.29	2.47	2.64	2.78	3.00	3.20	3.36	3.55
EPS Growth (%)			*8%*	*7%*	*5%*	*8%*	*7%*	*5%*	*6%*
Prior Estimates			*2.47*	*2.64*	*2.76*	*2.94*	*3.14*	*3.33*	*3.51*
Guidance (Excl Mankato)	2.17-2.22	2.25-2.35	2.45-2.49	2.60-2.65	2.73-2.83				
Consensus			2.46	2.62	2.77	2.96	3.13	3.32	3.44
Mgmt EPS CAGR: 5-7% off 2018 base ($2.43)	2.21	2.29	2.47	2.60	2.78	2.95	3.12	3.31	3.51
		low	*2.43*	*2.55*	*2.73*	*2.87*	*3.01*	*3.16*	*3.32*
		high	*2.43*	*2.65*	*2.83*	*3.03*	*3.24*	*3.47*	*3.71*
BofAe CAGR '18-'23e (off $2.43)	6.7%								
BofAe CAGR '18-'24e (off $2.43)	6.5%								
Target FFO/Debt			17%	18%	17%	17%	17%		
BofAe FFO/Debt		22%	19%	19%	17%	18%	17%	17%	

Source: BofA Global Research estimates, company report, Bloomberg

Valuation

We MtM our peer multiple to 16.3x from 16.7x before. We maintain our PO of $62.50/sh (unch vs prior) and we reiterate our Neutral rating as we factor in our 50% probability weighted Minnesota capex opp'y to the model. We note this still needs regulatory approval.

Table 58: XEL SOTP

2022E SotP Analysis - BofA
All figures in USD millions except per share

Regulated Utilities	2022 Net Income	EPS	P/E Multiple					Equity Value		
			Bear	Peer	Prem/ Discount	Base	Bull	Bear	Base	Bull
Group Peer Multiple - Electric				16.3x						-
Group EPS '18-'22 CAGR - Electric				5.00%						-
										-
Relative Utility Group P/E Multiple				17.1x						
Northern States Power Minnesota (NSPM)	$748	$1.39	19.1x	17.1x	3.0x	20.1x	21.1x	$26.54	$27.93	$29.32
Southwestern Public Service (SPS)	$339	$0.63	19.1x	17.1x	3.0x	20.1x	21.1x	$12.04	$12.67	$13.30
Northern States Power Wisconsin (NSPW)	$106	$0.20	19.1x	17.1x	3.0x	20.1x	21.1x	$3.76	$3.95	$4.15
Public Service Colorado (PSCo)	$630	$1.17	19.1x	17.1x	3.0x	20.1x	23.1x	$22.35	$23.52	$27.03
Total/Average Utility Earnings (excl Mankato)	$1,824	$3.38			3.0x					
Parent/Unallocated (excl Mankato)	-$99	-$0.18	19.1x	17.1x	3.0x	20.1x	21.1x	-$3.50	-$3.69	-$3.87
Add back 50% of HoldCo interest	$70	$0.13	19.1x	17.1x	3.0x	20.1x	21.1x	$2.50	$2.63	$2.76
Less: 50% of HoldCo Debt	-$2,462							-$4.57	-$4.57	-$4.57
Total	$1,725	$3.20						$59.11	$62.44	$68.11
Shares Outstanding (2022e)									*539*	
Total Equity Value Per Share								$59.00	$62.50	$68.00
Dividend FY20									1.72	
Dividend Yield									2.7%	
Total Potential Return Projected								-5%	1.0%	10%

Source: BofA Global Research estimates, company report, Bloomberg

Table 59: Stocks Mentioned

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
LNT	LNT US	Alliant Energy Corp	US$ 49.99	A-1-7
AEE	AEE US	Ameren Corp	US$ 73.24	A-1-7
AEP	AEP US	American Elec Power	US$ 82.91	A-1-7
AWK	AWK US	American Water	US$ 126.46	A-3-7
ED	ED US	Consolidated Edison	US$ 85.47	A-2-7
DTE	DTE US	DTE Energy	US$ 100.76	A-2-7
DUK	DUK US	Duke Energy	US$ 86.65	A-2-7
EIX	EIX US	Edison Intl	US$ 60.01	B-2-8
ETR	ETR US	Entergy Corp.	US$ 96.45	A-1-7
WTRG	WTRG US	Essential Utilities	US$ 42.24	A-2-7
EVRG	EVRG US	Evergy	US$ 59.12	A-1-7
ES	ES US	Eversource Energy	US$ 87.77	A-3-7
FE	FE US	FirstEnergy	US$ 44.49	A-1-7
PNW	PNW US	Pinnacle West Capit	US$ 76.60	A-2-7
PPL	PPL US	PPL Corp.	US$ 25.25	B-2-8
WEC	WEC US	WEC Energy Group Inc	US$ 95.88	A-3-7
XEL	XEL US	Xcel Energy	US$ 64.35	A-2-7

Source: BofA Global Research, Bloomberg

Price objective basis & risk

Alliant Energy Corporation (LNT)

Our $54.5 PO is based on a sum of the parts analysis employing relative premium and discounts to the large cap regulated peer multiple of 17.1x 2022E P/E. While our PO is on a 1 year basis we note the 2022 P/E multiple reflects a discount back to 2019. We note that electric peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector. We apply a 2.0x P/E premium on IPL as we see the ratecase overhang being resolved. We apply a 3.0x P/E premium on Eastern Wisconsin Electric Company reflecting 1) low risk investment nature of the state, 2) above average ROEs, 3) higher than average growth runway for investments, and 4) bad debt deferral. At ATC, we reflect a 2.0 x P/E premium on LNT's 16% share in the transmission company. Growth expectations for this segment are high, paired with above average ROEs that we believe face less downward pressure vs. regulated state distribution ROEs. We apply an in line multiple at the parent to account for the blend of numerous businesses some which benefit from long term stable PPAs via intercompany generation. Risks to our price objective are: 1) adverse rate case outcomes, 2) further equity dilution beyond our estimates, 3) interest rate risk, 4) natural disasters, and 5) lower allowed ROEs.

Ameren Corporation (AEE)

Our $79 price objective is predicated on a P/E based sum of the parts, valuing each business subsidiary relative to the 2022E ratebase weighted peer multiple of 16.3x for electric. We apply a 2.0x premium to peers at AEE Missouri to account for the improving prospects of capital spend, supplemented by a regulatory jurisdiction becoming more favorable - but lack of decoupling. We apply a 3.0x premium to peers at AEE Illinois to account for decoupling on the distribution business which aids in earnings predictability. The overall business is expected to grow at a more meaningful clip than that of peers - we see a 10% EPS CAGR at IL 2020-2024. At ATXI, we apply a 0x premium to peers to reflect the latest potential step down in FERC ROEs. At the Parent, we assume an in line multiple given the healthy debt metrics with FFO/Debt at 17%+. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector.

The upside (downside) risks to our price objective are the utilities earning their allowed returns or better (worse), a significant increase (decrease) in 30-year U.S. Treasury bond yields, and positive (adverse) regulatory outcomes that could impact mgmt's ability to earn its allowed return

American Electric Power (AEP)

Our price objective of $88 is based on SOTP analysis. We ascribe a peer forward P/E multiple (17.1x) with a 1.0x premium for its transmission-only Utilities segments, a 1.0x premium for its T&D utilities, and a 0x premium for regulated utilities as well as 2x for Kentucky Power. We note that electric peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector. We assume 100% likelihood of the North Central wind project and assign it a 0x premium under the reg utes as well.

Downside risks to our price objective are 1) regulatory outcomes are less favorable than expected, which could result in reduced ROE, 2) large capital intensive are subject to delays or cost overruns, which can change the return profile, 3) natural disasters or catastrophic events can affect system reliability and are subject to regulatory cost recovery risk, 4) utilities are subject to interest rate risk to fund their business, which affects cost of capital, 5) commodity risk affects the generation business margins and indirectly affects the regulated business as a pass through cost, 6) consumer advocates are focused on bill inflation, which can affect regulatory outcomes, 7) non-regulated businesses are inherently more risky and subject to execution risk and commodity variation.

American Water Works (AWK)
Our PO for American Water Works is $135. We apply the sector average 26.9x (vs. 26.3x) to American Water's 2022E earnings based on the water peer multiple and a 8.1% group EPS CAGR for '18-'23E. We think this multiple is justified as in our view AWK largely drives the peer multiple as the largest publicly traded water utility. We ascribe a 3x premium for NJ, PA, and IL, and a -3x discount to the military biz. Meanwhile, we ascribe a 12x multiple to the non-regulated Retail biz. Also a -1x P/E for Cali utility. no prem/discount for 'Other' segment with smaller state exposures.

Risks to the downside are increase in market interest rates, potential impact of tax reform on utilities, operational errors, changes in valuation levels for water utilities. Risks to the upside are accelerating muni acquisitions, multiple expansion, and constructive legislation in regulatory jurisdictions

Consolidated Edison (ED)
Our $86 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group multiples (16.8x/15.8x for electric/gas respectively) with a 1.0x premium to reflect defensive nature of the stock, and -1.0x discount on Steam to reflect lack of decoupling / weather risk. We note that both electric and gas peer P/E multiples are grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We applied inline peer regulated multiple at CECONY despite its rate certainty for conservatism as our higher capex expectations are reflected in our EPS outlook. We apply a discounted PE for infrastructure projects given the lack of clarity around the capital structure. We further apply an EV/EBITDA approach on 2022E EBITDA to the CEB business using a 10.0x multiple for both the legacy portfolio and the renewables portfolio seeing it as having higher quality returns.

Downside risks: ED, like all utility stocks, is also sensitive to changes in the market level of interest rates. Utilities historically underperform if bond yields rise, and outperform when they fall. Further downside risks are the inability to recontract storage, adverse regulatory outcomes, a deteriorating regulatory environment, or unforeseen disasters such as the Harlem gas explosion, the SRE transaction not being completed. Customer inflation is also a downside risk. PCG related counterparty exposure is among the nearest exposures to watch.

DTE Energy (DTE)
We value DTE Energy at $115 using a SOTP approach.
We value the utility segment on a 2022E forward P/E multiple basis and the non-utility seg. on a 2022E forward EV/EBITDA multiple basis. For the utility segment we apply a 2x premium to our both reg. electric and gas utility peer multiple of (16.5x and 15.6x respectively). Both electric and gas peer P/E multiples are grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We subtract out Corp & Other expense excl. interest rate.
For GSP we use a midstream peer group multiple of 9x, with a -1x discount for Momentum. P&I, we apply an 8x EV/EBITDA multiple, despite the lower equality of these earnings and opaque disclosures, as mgmt has been able to execute on new project origination. We value the reduced emissions fuel (REF) tax credits separately using a DCF methodology at 6% discount rate.

Upside risks to our PO are capex expansions, higher authorized ROEs, and strong performance in the ET segment. Downside risks are interest rate hikes, execution risk on organic growth initiatives at the nonregulated business, and less favorable regulatory environment.

Duke Energy (DUK)
Our $87 PO is derived from a sum-of-the-parts valuation. We value the Electric and Gas utilities using peer 2022E P/E multiples. We apply a 1.0x multiple premium to Duke's

operations in FL/IN to reflect more favorable regulatory environments. We apply an in-line multiple to the Carolinas given risk ahead. We value the other regulated electric utilities at 17.1x and the gas utilities at peer group multiples of 15.9x 2022E P/E, respectively. Both electric and gas peer P/E multiples are grossed up by 5% for the groups CAGR to reflect capital appreciation across the sector. The commercial midstream, and transmission are valued on a 2022E EV/EBITDA basis. We use a 9.0x multiple for midstream and transmission segment. We add the net present value of renewable segment using an 8% discount rate. We subtract out the impact of commercial debt, and add back for the renewable debt.

Upside risks: constructive rate case results, higher capital expenditure additions vs our assumptions, lower interest rates. Downside risks: poor rate case results, operating errors, and negative changes in the regulatory environment, Macro risks: Increases in interest rates and decreases in equity market valuations.

Edison International (EIX)
Our $65 PO is based on SOTP, applying a 4x disc to the FERC and CPUC jurisdictional subsidiaries, and the parent/other segment 17.1x on 2022E (grossed up by 5% to reflect capital appreciation across the sector). The disc reflects CA ongoing wildfire risk despite the improved construct through AB1054. We apply 10x 2022E P/E to the Edison Energy segment to reflect uncertainty in the nascent biz. We net out ongoing contribution to the fund on an NPV basis.

Downside risks: 1) Regulatory outcomes less favorable than expected. 2) Natural disasters or catastrophic events can affect system reliability and are subject to regulatory cost recovery risk. 3) Interest rate risk. 4) Non-reg businesses are inherently more risky and subject to both execution risk and commodity variation. 5) CA has specific risks given the differentiated regulatory regime. 6) CA wildfires.
Upside risks: rate case outcome above what's embedded in companies' guidance and BofA estimates, lower interest rates, more constructive regulatory / legislative outcomes to address wildfire risk

Essential Utilities (WTRG)
Our price objective is $47 based on our SOTP approach, applying a peer multiple to the water utility and gas utility, respectively and accounting for expected growth for each sector. We apply a 2.0x premium to Peoples Gas given the organic growth opportunities.We net out parent debt and parent interest expense associated with parent debt 50/50 weighed basis.

Risks to the downside are acquisition risk, deteriorating regulatory outcomes, and risks from a lower rerating following the diversification into gas.

Risks to the upside include upward revisions to street estimates and further accretion from implementation of the Repairs Tax Benefit.

Evergy, Inc (EVRG)
Our $68 price objective for EVRG shares is based on sum of the parts valuation, applying an in-line utility peer 2022E P/E of 17.1x. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We further apply a +2.0x turn discount across all jurisdictions based on our perception of improving regulatory relationships and possibility of further stakeholder engagement.

Downside risks to our price objective are adverse regulatory outcomes in rate cases, higher interest rate environments, adverse and unexpected risks associated with operating a nuclear facility, the possibility that the strategic review committee does not result in a transaction recommendation and that a modified standalone plan disappoints in rate base and earnings growth when presented later in 2020.

Upside risks to our price objective are favorable regulatory outcomes in rate cases, lower interest rate environments, higher than anticipated O&M benefits and merger synergies, ability to recover capital tied to retired coal plant.

FirstEnergy (FE)

Our PO of $45.5 is based on a SOTP: Multiples are driven by relative P/E premiums/discounts to the 2022 regulated peer multiple of 17x (previously 16.9x) . Electric peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector. As for premiums/discounts, we view NJ as in-line given a generally constructive commission, PA as in-line as we view our more punitive ests already account for industrial load sensitivity incl O&G royalties, and others as in-line. In OH, we apply a -1x P/E discount multiple, We argue this accounts for overearning risk. Finally, we apply a 0x P/E premium to peers 2022E multiple to the Transmission business given some limited ability to invest and FERC ROE difficulties. We removed impact of DMR payments. We subtract out the holding co debt given the high parent lev. We net out potential liabilities from a potential FES bankruptcy by assuming all known 'extra' potential liabilities.

Downside risks: 1) Reg outcomes may improve/deteriorate, 2) legislative solutions may materialize for challenged parts of biz or FE could lose/fail to gain legislative support in key states, 3) int rates positively/negatively affect cost of cap, 4) reg staff or cons advocates may focus on issues beneficial/detrimental to ROEs, 5) exit from comp power biz may or may not have substantive liabilities accrued to equity holders.

Pinnacle West (PNW)

Our price objective of $78 is based on a peer utility 2022E P/E multiple of 16.6x with a -2.5x discount to account for PNW's risk around its pending rate case as well as headline risk related to disconnect policy review. Electric and gas peer P/E mult is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We ascribe an in-line premium despite clear renewable capex backdrop given ongoing regulatory risk associated with the company's upcoming rate filing and 2020 election risk.

Upside risks: 1) Regulatory relationships/outcomes could improve, including changes at the elected commission 2) load growth in territory above expectations 3) Riders and capital trackers could help achieve ROE 4) positive weather helps earnings 5) interest rate risk changes cost of capital - lower rates could improve 6) Consumer advocates or utility staff could become focused on issues that improve ROE

Downside risks: 1) Regulatory relationships/outcomes could decline, including changes at the elected commission 2) load growth in territory below expectations 3) Riders and capital trackers could hurt ROE 4) negative weather hurts earnings 5) interest rate risk changes cost of capital - higher rates could worsen 6) Consumer advocates or utility staff could become focused on issues that hurt ROE 7) Solar advocates in the state have engaged in public confrontations with the utility, which could change public relations in the future.

PPL Corporation (PPL)

Our $27 price objective is based on a sum of the parts methodology applying respective premium/discounts to the 2022E peer group multiple of 16.5x. Electric peer P/E multiple is grossed up by 5% to reflect capital appreciation across the sector. We apply a 1.25x RAV multiple in our base case for our Western Power Distribution (WPD) RAV approach, seeing the higher ROEs relative to other distribution networks commanding a premium valuation.

Downside risk to our price objective is exposure to FX rates. Since the UK segment represents a significant portion of PPL's earnings, a Federal Reserve decision to raise interest rates could produce a fall in the GBP/USD currency rate that would adversely affect our estimates and valuation for PPL. Also, like all utility stocks, PPL has historically underperformed if bond yields rise. Upside risks are a rising $/pound (GBP) price, positive regulatory outcomes, and decreasing treasury yields.

WEC Energy Group Inc (WEC)

Our $83 PO is based on a 2022E SoTP analysis, based on the large cap electric group multiple of 16.7x and the gas regulated multiple of 15.7x. Both electric and gas peer P/E multiples are grossed up for a year to reflect capital appreciation across the sector.

We apply a 4.0x premium to WEC's WI electric & gas subs to compensate for surety in earnings growth for the next two years following the Commissions affirmation of the recent settlement on above average ROE's of 10%+. We apply a 1x premium to the gas utilities, incl IL's Peoples Gas and North Shore Gas with the Gas System Modernization Program (GSMP) and capex forecasts de-risked following the ICC order. We ascribe a 2x premium vs. the group at ATC to account for the steady nature of earnings growth as well as above average ROE's that are set at a federal level by FERC. We give Power the Future (PTF) a 1.0x premium multiple given the ROE is set indefinitely on historical and new investments. We ascribe an in line multiple for the parent accounting for the interest expense which finances overall utility operations. For the HoldCo adjustment to debt, we net out 50% of HoldCo debt from equity valuation and adjust to add back the parent drag on interest exp.

Upside risks are stronger than expected execution and accelerating capital oppt'y.

Downside risks are inability to achieve historical track record on cost cutting and ability to cont. to scale regulated investments given growing portion from contracted renewables.

Xcel Energy Inc (XEL)

Our PO is $62.5. We value Xcel Energy using a sum of the parts (SOTP) approach. Given the difference in geography, earnings strength, growth opportunity and risk profile, we divide the segments by subsidiary.

We use 2022E forward P/E multiples to derive a value for the different business segments, including the parent segment. We use a peer multiple of 16.3x . Electric peer P/E multiple is then grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We apply a 3x premium to subsidiaries. We see this multiple as appropriate as the company has growth opportunities, resolving regulatory drag and resolving uncertainty around rate cases. We stripped Mankato as a non-reg asset in our SOTP due to the sale. We also net back 50% of the parent interest expense and instead subtract out 50% of parent debt to more accurately reflect HoldCo leverage.

Downside risks are interest rate increases, regulatory risk such as lower authorized ROEs or less favorable riders/trackers for renewables and transmission, interest rate risk, execution delays, and weather anomalies.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
NEUTRAL				
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Richard Ciciarelli, CFA
	Northwest Natural Holdings	NWN	NWN US	Richard Ciciarelli, CFA
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA
	South Jersey Industries	SJI	SJI US	Richard Ciciarelli, CFA
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	El Paso Electric Company	EE	EE US	Julien Dumoulin-Smith
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith

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Important Disclosures

Equity Investment Rating Distribution: Utilities Group (as of 30 Jun 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	76	51.01%	Buy	56	73.68%
Hold	33	22.15%	Hold	22	66.67%
Sell	40	26.85%	Sell	29	72.50%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1632	52.21%	Buy	1031	63.17%
Hold	711	22.74%	Hold	444	62.45%
Sell	783	25.05%	Sell	407	51.98%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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